US election

Can Bush catch up?

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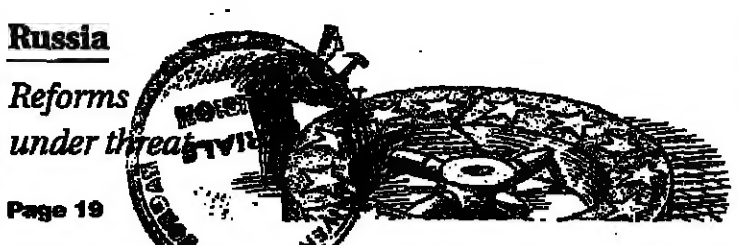

Today's EC summit

Getting Europe back on the road

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Tomorrow's Weekend FT

America's new south

FINANCIAL TIMES

Europe's Business Newspaper

FRIDAY OCTOBER 16 1992

D8523A

US dashes hopes of compromise on Uruguay round

The US has "stretched as far as possible" in stalled talks with the EC on world trade liberalisation, President Bush told EC leaders yesterday. The US has also fuelled the argument over oilseeds subsidies by announcing plans to sell cheap vegetable oil worth $377m to 11 countries. Page 20; US fires fresh shot in oilseeds war, Page 34

Losses at Finnish banks: Five Finnish banks revealed a sharp drop in performance for the first eight months, reflecting the severe Finnish recession, high credit losses and narrow margins. Page 21

Bush braced for debate: Last night's second US presidential debate was being billed as one of the last chances for President George Bush to reverse his dwindling chances of re-election. Page 20; US election, Pages 6-7

Savimbi summoned: South Africa sent an executive jet to the highland stronghold of Unita leader Jonas Savimbi with the hope of initiating talks to avert a renewal of Angola's civil war. Mr Savimbi is disputing the results of the country's first multiparty elections last month aimed at cementing peace after 16 years of fighting. Page 4

Kosovo breakthrough claimed: Milan Panic, Yugoslav prime minister, said he had made a breakthrough with ethnic Albanian leaders in the Serbian province of Kosovo after pledging to abolish discriminatory legislation. Page 5

Philip Morris shares fall: Shares in the tobacco and food company fell after the company reported a small decline in domestic cigarette shipments in the third quarter and predicted a much larger fall for the rest of 1992. Page 21

Italian unions win concessions: Trade unions, which staged a four-hour general strike over welfare cuts on Tuesday, have won limited concessions on pensions. Page 5

Japan embarrassed: Japan's cabinet described as "extremely inappropriate" a suggestion from a military officer that a coup d'etat would clean up the political system. The major who made the comment is to be disciplined. Page 4

Hachette, French media group, stayed in the red during the first half of this year, but forecasts a return to profit for the full financial year. Page21

Impasse over HK airport: Sino-British talks over the financing of Hong Kong's new airport reached another impasse when China's negotiators rejected Britain's latest proposals. Page 4

Sri Lanka killings: Tamil separatist rebels killed at least 160 mainly civilians in raids on villages, according to army officers. Tamil Tigers are fighting for an independent state in the north and east of Sri Lanka.

Du Pont Japan, Japanese arm of the US chemical maker, and Japanese trading house Mitsui, announced plans to establish a joint venture company to increase both partners' penetration of Asian-Pacific markets. Page 5

Brazil committed to reform: Acting president Itamar Franco said his government remained committed to the "basic principles" of the modernisation programme started by the suspended president, Fernando Collor. Page 4, Reforms win praise from Gatt, Page 5

Reactor leak: Lithuania is shutting down a Chernobyl-type nuclear reactor 60km north of Vilnius after a radiation leak. Lithuanian radio said there was no danger to the population. Eastern Europe's crumbling nuclear plants, Page 5

Mercedes-Benz, German carmaker nearly tripled its purchases of UK-produced motor components last year. Page 9

American Airlines is to lay off hundreds of administrative workers in an attempt to cut management payroll costs by 10 per cent next year. Page 23

First Chicago bank suffered a loss of $365.1m for the third quarter after taking a special charge of $625m to cover loan losses and restructuring. Page 23

Nigerian elections: Military rulers opened talks on the electoral crisis, raising fears that next January's planned handover of power to civilians may be delayed. Page 4

STOCK MARKET INDICES

FT-SE 100:	2546.6	(-28.1)
Yield	4.72	
FT-SE Eurotrack 100	986.39	(-5.70)
FT-A All-Share	1200.77	(-1.1%)
Nikkei	17628.49	(+284.46)
New York: lunchtime		
Dow Jones Ind Ave	3170.35	(-25.13)
S&P Composite	408.37	(-1.0)

US LUNCHTIME RATES

Federal Funds:	3½%
3-mo Treas Bills: Yld	2.941%
Long Bond	97 $\frac{5}{32}$
Yield	7.498%

LONDON MONEY

3-mo Interbank	8 $\frac{11}{16}$%	(8¾%)
Liffe long gilt future:	Dec 97 $\frac{7}{32}$	(Dec 97 $\frac{1}{32}$)

NORTH SEA OIL (Argus)

Brent 15-day (Nov)	$20.85	(20.675)

Gold

New York Comex	$341.9	(343.0)
London	$342.6	(343.45)

STERLING

New York lunchtime:		
$	1.6985	
London:		
$	1.7016	(1.7095)
DM	2.4625	(2.5)
FFr	8.3725	(8.4875)
SFr	2.2	(2.23)
Y	204.5	(206.75)
£ Index	81.8	(82.7)

DOLLAR

New York lunchtime:		
DM	1.45315	
FFr	4.9375	
SFr	1.3095	
Y	120.35	
London:		
DM	1.4475	(1.4625)
FFr	4.92	(4.965)
SFr	1.293	(1.304)
Y	120.25	(121.0)
$ Index	61.3	(61.6)

Tokyo close Y 120.55

Austria	Sch30	Greece	Dr250	Lux	LFr60	Qatar	QR12.00
Bahrain	Din1.250	Hungary	Fl162	Malta	Lm0.50	S.Arabia	SR11
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lv25	India	Rs20	Neth	Fl 3.50	Spain	Pts200
Cyprus	C£1.00	Indonesia	Rp3500	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00
Denmark	DKr14	Italy	L2500	Oman	OR1.50	Syria	SyP50.00
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs35	Thailand	Bht50
Finland	FM12	Korea	Won 2500	Philippines	Pso45	Tunisia	Din1.250
France	FFr8.50	Kuwait	Fils.600	Poland	Zl 22,000	Turkey	L6000
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190	UAE	Dh10.00

UK officials confident that summit will bring clear statement on EC

Major committed to ratify treaty

By Our Foreign and Political Staff in Birmingham

MR JOHN MAJOR, the British prime minister, last night offered his European partners an unequivocal commitment to ratify the Maastricht treaty despite the mounting opposition in his own party.

As the prime minister held a series of bilateral discussions with other European leaders on the eve of today's Birmingham summit, British officials voiced confidence that the meeting would end with a clear statement of intent on the future direction of the Community.

But they cautioned against expectations of any "breakthrough" to end the near-paralysis in the EC caused by the Danish rejection of the treaty.

Mr Major, who will chair the meeting, is looking for a clear pledge on subsidiarity to help damp opposition in the ruling Tory party ahead of the Commons debate on Maastricht, paving the way for full ratification, either at the end of the year or early next year.

Support emerged for Mr Major from both Bonn and Brussels last night. Mr Jacques Delors, European Commission president, said: "I recognise that the political situation in Britain is very difficult. One of the objects of this [summit] is to help Mr Major and the British government."

German officials made clear that Bonn wanted the summit, above all, to be a success for Mr Major, to strengthen his domestic political position and give "a signal of confidence" to the rest of the EC.

A draft declaration presented by the British presidency to other governments said the 12 should combine reaffirmation of the Maastricht treaty with a series of pledges to decentralise decision-making, to inject greater openness into the Community's institutions and to offer reassurance that European union will not threaten national identities.

However, fundamental disagreements remaining among the 12 about the precise application of the principle of decentralisation or "subsidiarity" mean that the Birmingham declaration will do little more than commit the leaders to more detailed decisions at the Edinburgh summit in December.

EC leaders were also reluctant to give firm answers to the demands of the Danish government for a series of "opt-outs" from the provisions of the treaty.

In his talks with Mr Felipe Gonzalez, the Spanish prime minister, Mr Giuliano Amato, the Italian prime minister and Chancellor Helmut Kohl of Germany last night, Mr Major's first priority was to persuade them that unrest in the Conservative party over Maastricht would not prevent British ratification.

During a lengthy dinner with Chancellor Kohl, Mr Major was seeking also to repair the damage to Anglo-German relations inflicted by the row over sterling's departure from the European exchange rate mechanism.

British ministers said the bitter exchanges with the Bundesbank should now be "forgotten".

SUMMIT BACKGROUND

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- Major's need for authority
- Italy fears two-speed EC
- Irish twist beggars Major

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European Commission president Jacques Delors in Brussels said tomorrow's summit must restore a "climate of confidence" in European integration

US hardens trade stance, Page 20

Adidas buy-out talks collapse

By Angus Foster in London and Alice Rawsthorn in Paris

PENTLAND, the UK-based sporting goods distributor, has withdrawn from negotiations with Bernard Tapie Finance (BTF) over the purchase of Adidas, the sports-shoe maker.

Pentland said it had found "serious problems" during a three-month period when it studied Adidas's books but claimed it could not be specific due to a confidentiality clause.

Mr Frank Farrant, finance director, said: "There were fundamental problems we discovered which no company, public or private, would have taken on board."

But Mr Bernard Tapie, the controversial French businessman who founded BTF and bought Adidas in a highly leveraged deal, challenged Pentland's version of events, saying the company had tried to renegotiate the price and seek extensions.

"Pentland says things that do not correspond with the truth," he said.

Pentland, which took a 20 per cent stake in Adidas last year, raised its holding to 95 per cent in July this year in a deal which valued Adidas at FFr3.1bn ($624m). About 58 per cent of the shares were to be bought from BTF while certain French banks and insurance companies agreed to sell a further 20 per cent.

Negotiations broke down on Wednesday evening when an extension to a period agreed by both parties, during which time Pentland examined Adidas, expired. Mr Farrant said Pentland pulled out when it became clear BTF was not prepared to grant reassurances on the outstanding problems.

But advisers to BTF blamed Pentland chairman Mr Stephen Rubin for being too cautious and delaying the due diligence period unnecessarily.

The apparent breakdown in talks leaves the future of Adidas uncertain. Analysts said Pentland, which has net cash of more than £250m from the sale of its investment in Reebok, the US sports-shoe maker, was a natural fit for Adidas. Adidas needs new investment to enliven its brand name and to source more products from east Asia, where Pentland is particularly strong.

Cabinet stands by decision on pit closures

By Alison Smith, Ralph Atkins, David Goodhart and Jimmy Burns

THE UK CABINET – which had not discussed the drastic programme of pit closures before it was announced on Tuesday – insisted yesterday the plan had to go ahead.

It said ministers should make fresh efforts to argue the economic case for the closures in the face of a rising tide of protest which threatens the most significant Tory revolt since Mr John Major became prime minister.

Meeting in Sheffield, the National Union of Mineworkers did not call a strike ballot in the hope of triggering a poll-tax style public revolt on the issue.

Opposition to the plan is putting at risk the government's majority at Westminster. The fact it was agreed by a small group of ministers rather than the full cabinet has increased concern that the full implications were not addressed.

Senior ministers said the argument for closing 31 of British Coal's 50 pits with the loss of 30,000 jobs had not been explained sufficiently to get public support, as the prospect loomed of a significant Tory revolt in next week's House of Commons debate on the coal industry.

Downing Street said Mr Major had been "fully engaged" in the decision, which had been taken after discussion with the ministers most closely involved. These included Mr Michael Heseltine, trade and industry secretary; Mr Tim Eggar, energy minister; Mrs Gillian Shephard, employment secretary; and Mr Michael Portillo, Treasury chief secretary.

There was surprise at Westminster, however, that some ministers had been unaware of the closures before Tuesday's announcement, and that Mr David Hunt, Welsh secretary, had not been told that Point of Ayr colliery in Wales would be among the casualties.

The closures appeared to dominate yesterday's cabinet meeting, which lasted two hours instead of the planned 30 minutes.

Mr Heseltine is to make a statement on the pit closures to the House of Commons when parliament resumes on Monday, but the critical moment for the government will come on Wednesday when its 21-strong majority is at risk in the debate called by the opposition Labour party.

Mr John Smith, the Labour leader, has made it clear that he is interested in defeating the closure plans, and is drafting a simple motion intended to give Tory MPs the least possible excuse for not supporting it. He said it was "astonishing and appalling" that the decision had not been taken by cabinet.

But Mr Tony Newton, the leader of the Commons, defended the handling of the decision, saying the issues had been "very thoroughly discussed and fully assessed by the ministers concerned", who had had the opportunity to talk to their colleagues.

The need for the government to offer a better explanation for the closures was underlined by Mr Tom King, a former Tory cabinet minister. He said it was vital to assure people that "the implications of this have really been

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IBM share price drops after third quarter loss of $2.8bn

By Louise Kehoe in San Francisco

INTERNATIONAL Business Machines surprised Wall Street yesterday with earnings far weaker than expected.

The computer manufacturer reported third quarter net earnings, before charges, of just $86m, or 15 cents a share, below US analysts' lowest projections.

After previously announced restructuring charges of $4.43bn, IBM's net losses for the quarter were $2.8bn or $4.87 per share compared with 1991 net earnings of $177m or 31 cents. Revenues rose from $14.4bn to $14.7bn.

IBM shares, which had been trading at a 10-year low in recent weeks, plummeted to $72½ by midday in New York, down from Wednesday's closing price of $78.

Together with poor figures from Philip Morris, the tobacco, drinks and food group, IBM's disappointing results pulled the broader market down. At 1.30pm in New York, the Dow Jones Industrial Average was 24.32 points lower at 3,171.16.

Despite the poor results, IBM said dividend payments would not be affected. "We have no need or plans to do anything about the dividend," Mr Frank Metz, IBM senior vice-president told analysts.

IBM blamed the European currency crisis, combined with slow sales of mainframe and personal computers for its poor third quarter performance.

The charges announced last month covered the cost of reducing IBM's workforce and consolidating manufacturing capacity. The company said then it expected 40,000 employees to accept voluntary severance, double the number it had projected earlier in the year. The charges were partially offset by a tax benefit.

"I'm disappointed by our third quarter results," said Mr John Akers, chairman. "Our business was adversely affected by economic turmoil in Europe, particularly at the close of the quarter, and by persistent economic weakness in the US and Japan.

"Our hardware profits continued to be hurt by price pressures, especially within our personal computer line. Software and services revenues grew and our expenses declined."

Mr Metz said IBM had not expected the effect on business of the currency turmoil in Europe. "In many cases, because of the enormous uncertainties ... people just stopped buying things."

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Hard lessons ahead for class of '92

Restoring order to EC is main aim of summit, writes Lionel Barber

LIKE most gestures born of panic, the idea of an emergency summit of European Community leaders seemed like a good one at the time.

Four weeks ago, the money markets were in chaos, and the result of the French referendum on the Maastricht treaty appeared in doubt. The sense of an imminent political and economic explosion has now passed, and this may explain the lack of enthusiasm in Brussels and other European capitals for today's special one-day summit in Birmingham.

The British presidency under Prime Minister John Major has set its sights low for Birmingham. In part, this reflects a lack of time for adequate preparation; but it also highlights the fear of failure. As Mr Jacques Delors, European Commission president, observed yesterday: the importance of the Birmingham summit is as much psychological as political.

Ever since Danish voters rejected the Maastricht treaty on European Union in last June's referendum, the EC has been suffering from a crisis of confidence in its leaders, its institutions, and its future. *This crisis erupted in Denmark,* and then spread during the summer to the UK, and finally to France, when popular frustration with the government almost led to the defeat of the Maastricht treaty in the September referendum.

Germany has not been immune – popular disenchantment with the EC is growing, fuelled by resistance to giving up the Deutschemark in return for the single European currency prescribed by Maastricht.

The accelerating economic downturn in Germany and elsewhere in Europe has raised further doubts about the common drive for economic convergence and future European monetary union.

What is striking about today's summit is how little attention this new political and economic reality is likely to command – despite its direct relevance, not just to the ratification of Maastricht but also to the prospects for implementation of the treaty's provisions.

Thus, it is unlikely that any serious debate will take place on how to pull member states out of their deflationary spiral; nor how to overcome French objections to a Gatt multilateral trade agreement which British, German and American officials say is within reach.

Equally, a discussion on possible reforms to the Exchange Rate Mechanism (ERM) will be confined to generalities.

Instead, EC leaders will focus on presenting a consensus which covers three essentials:

- early ratification of Maastricht, without a renegotiation of the treaty;
- subsidiarity – the Brussels buzz-word for devolving power to the lowest appropriate level, be it national, regional or local;
- and transparency, a loose term which means opening up decision-making to more public scrutiny and emphasising the benefits of the Community to the ordinary EC citizen.

The devil lies in the details. A British commitment to early ratification has partially restored Mr Major's battered EC presidency, removing the suspicion among its partners which followed sterling's withdrawal from the ERM last month.

But it does nothing to solve the Danish question. Mr Poul Schlüter, the Danish prime minister, will today propose opt-out possibilities from the Maastricht treaty. Such an intervention is viewed in Brussels as more than a foretaste of Danish demands for Maastricht modifications. These spell protracted negotiations over the next two months, the outcome of which is by no means a foregone conclusion.

The subsidiarity debate is also fraught with difficulty. The best that British and other European diplomats in Brussels expect from Birmingham is a declaration of principle – in plain English rather than the convoluted Euro-jargon in the Maastricht treaty – which may be sweetened by the promise of future action to stamp out unnecessary meddling by Brussels.

One idea gaining support is for Mr Delors to produce 10-20 *planned* EC directives which could be scrapped early next year (just in time to impress British MPs who are likely to be scrutinising the Maastricht treaty line by line in the House of Commons). Scrapping existing Euro-legislation is another matter. Despite British interest in rolling back the frontiers of some Community legislation, Commission officials have found it difficult to come up with examples which would avoid challenges in the European Court.

The British pet-hate – the 48-hour working week directive – cannot be cited because it would upset France and Germany, the chief proponents, according to UK officials, even though it captures precisely what many people in the UK resent most about harmonised rule-making in the Community.

In recent weeks, propelled by the shock of sterling and the lira leaving the ERM and the imposition of temporary exchange controls in Ireland, Portugal and Spain – there has been a good deal of talk about a two-speed Community.

Some of the rumours have been aimed at prodding Britain to stop hiding behind the Danes and ratify Maastricht; others, particularly in Germany, derive from resistance to giving up the D-Mark.

Birmingham will seek to emphasise that, whatever the difficulties, the EC remains a Community of Twelve. It is not a privileged club. The image of unity will be paramount.

Yet however well the British stage-manage this briefest of summits, the lingering impression is that the Community has yet to contain – let alone conquer – the crisis which has been gathering since the Danish mutiny last June.

ERM reform sidelined by unspoken rule

By Peter Norman, Economics Editor

REFORM of the European exchange rate mechanism is the cause that has faded from the agenda of today's summit.

In the tense and difficult days after sterling's departure from the ERM on "Black Wednesday", Mr John Major, the prime minister, complained of "fault lines" in the European monetary system and gave notice that he would press the case for ERM reform at today's meeting. After several acrimonious exchanges between Britain and its EC partners, this ambition has been largely shelved. Finance ministers will not be attending the summit.

Instead, Mr Jean-Claude Trichet, director of the French Treasury and chairman of the EC monetary committee, will be on hand to give an oral report on reform efforts.

The UK's attempt to blame the humiliation of Black Wednesday on the ERM has foundered because the other member countries stand firmly behind the system. At a difficult meeting of the economics and finance ministers' council in Brussels last month, Mr Norman Lamont, UK chancellor, was forced to retreat from demands for an overhaul of the ERM when he found himself threatened with isolation.

That meeting patched over the differences by agreeing that last month's turmoil on the European exchange markets should be followed by "reflection and analysis" of developments in global capital markets and in the European and world monetary systems. The EC monetary committee from the member states' finance ministries and central banks has been charged with this task. In a letter last week to the Commons treasury and civil service committee, Mr Lamont said "that work needs to be carried forward".

However, it seems that little has been achieved so far. There will be no formal written report from the monetary committee for the EC leaders at the summit. Nor is a detailed discussion of ERM problems planned. The UK now argues that a summit of EC leaders is not the forum to discuss the nitty gritty of economics and finance – an argument that ignores the fact that in 1978 two such summits negotiated the creation of the EMS. Birmingham, officials say, will not be the place for market sensitive decisions.

The UK's retreat from having the Birmingham summit address the supposed fault lines in the ERM has been accompanied by continued uncertainty as to what its defects might be.

Mr Lamont talked mainly in general terms about the ERM at his appearance before the Commons treasury committee this week. He mentioned the strains created by the incompatibility of monetary conditions and the lack of synchronisation of the economic cycles of the UK and Germany and the tensions arising from the large short-term interest rate differential.

The UK has also called for a fairer sharing out of burdens in the ERM. In its quest for greater "symmetry" in the system, it has complained about certain aspects of the way ERM members support their currencies through intramarginal intervention.

The British government believes the Bundesbank supported the French franc strongly *through intramarginal* intervention last month, while according to Mr Lamont it gave no such support to sterling. The Bundesbank, for its part, has said that it did buy sterling intramarginally before the pound left the ERM.

However, the summit will not want to explore such detailed differences for fear of opening old wounds. They will encourage the monetary committee to continue its studies. But there is no sign that the majority will swing behind the British belief that the ERM needs substantial change.

Major sets out to re-establish his authority

By Philip Stephens, Political Editor

IN Brighton last week, Mr John Major began the painful process of rebuilding his authority with the Conservative party faithful. In Birmingham today, he must do the same with his European Community colleagues.

Neither task will be easy. Sterling's enforced departure from the exchange rate mechanism and the threatened Tory rebellion over Maastricht have dented Mr Major's authority at home and his standing in Europe. The economic recession continues to to undermine the loyalty of his supporters at Westminster.

Nor can the prime minister disguise in coming months the tension in a strategy designed to reconcile the streak of chauvinism in his party with a personal commitment to good Europeanism. To restore party unity, he has pledged that British self-interest will be the guiding light of his European policy. But to persuade his European partners that Britain should not be relegated to the EC's second division, Mr Major *must convince them that he* can and will deliver ratification of the Maastricht treaty.

Demands for radical ERM reform have been dropped. All Britain expects are a few adjustments to intervention rules

His first hope must be that none of his counterparts in Birmingham have read his unashamedly nationalistic speech to the Tory conference. It was tailored to an audience ready to blame Brussels and Bonn for everything from the economic recession to the weather. Reminding his supporters of the Second World War, Mr Major said henceforth the national interest would come first, second and third in all dealings with Europe.

But that was last week. His message today will be mark*edly different.* Public reaffirmation of the government's determination to halt the trend of EC centralisation will be accompanied by private re-assurance to Chancellor Helmut Kohl and others that he is determined to ratify Maastricht.

But he will explain that the divisions in his party may mean delaying this until early next year, allowing him time to chip away at the less committed Conservative rebels.

Mr Major, who met Mr Kohl last night, will seek to rebuild the Anglo-German bridges burnt in the immediate aftermath of the sterling crisis. *Demands for radical reform of* the ERM have been quietly dropped. The most Britain now expects are a few technical adjustments to intervention arrangements. He dare not admit it to his own MPs, but the prime minister hopes sterling can be put back into the system in the latter half of next year.

Britain's ambitions for the "clarification" of Maastricht – which will dominate today's discussions and the more important Edinburgh summit in eight weeks' time – are less dramatic than rhetoric implies.

From Birmingham, Mr Major wants a declaration of intent that other EC governments will heed public concern evident in the debate over Maastricht and bring the Community closer to its citizens. He needs a piece of paper with which to persuade the Commons that his partners are as serious about subsidiarity, openness and national identity as he is. It will be left to Edinburgh to give substance to the broad principles agreed today.

No one in Whitehall doubts *there will be wrangling about* the institutional changes that will imply. The smaller states want to preserve the role of the Commission as a counterbalance to the powers of their larger partners. The concept of subsidiarity has shown itself to be one easily bent to the particular interests of different governments – often in mutually contradictory ways.

But the central political calculation that gives comfort to Mr Major is that his counterparts must agree by Edinburgh a document which will persuade the Danish government to resubmit the treaty to its electorate. Such a declaration will help persuade wavering Conservative MPs to return to the Maastricht fold. That will not make it easy for Mr Major to ratify. But it should make it possible.

LEG WORK: Figures in a bas-relief mural in Birmingham are searched by a Bomb Squad officer

Kohl hopes summit will help host

Germany wants to give a 'signal of confidence', writes Quentin Peel

GERMANY wants the summit to be, above all, a success for Mr John Major, the British prime minister, to strengthen his domestic political position, and to give "a signal of confidence" to the rest of the European Community.

Chancellor Helmut Kohl, who met Mr Major for dinner last night, is adamant that there is no alternative to the ratification of the Maastricht treaty on European union by all 12 member states. "There is *no fall-back position,"* one senior German diplomat said.

The chancellor is also angrily trying to halt the debate over whether an inner core of EC members should press ahead towards union regardless of the rest.

"This stupid discussion over a Europe of two or three speeds must be stopped," said another official. "It has no basis in fact. It was certainly never even mentioned in Paris at the discussions between the chancellor and President François Mitterrand."

What the chancellor wants, his advisers say, is a full-blooded statement of commitment to Maastricht, with enough political declarations to reassure Euro-sceptics in Britain, Denmark and Germany that the EC is not some "bureaucratic leviathan".

They admit that the summit is not going to solve any of the EC's fundamental problems, and it will not come up with a detailed definition of "subsidiarity" – the concept of maximum devolution of power to national, regional and local government. It will also do nothing to answer the fears of a large majority of Germans over the prospective replacement of the D-Mark with a single European currency.

What Chancellor Kohl wants is a full-blooded statement of commitment to Maastricht with enough political declarations to reassure Euro-sceptics

What it will do, they hope, is set enough clear guidelines so that the Edinburgh summit in December can solve the subsidiarity problem, and provide Denmark with the reassurance it needs to call a new referendum on the treaty.

There is not going to be any independent German initiative on those issues, in spite of the government's recent memorandum on subsidiarity, because Bonn is determined that overall control should remain with the British presidency: bilateral relations are too sensitive for any other tactic.

Broadly the positions of Britain and Germany coincide. Mr Kohl has been emphasising increasingly the need for a "citizen-friendly Europe", and for recognition that the EC has been trying to legislate on too many details of daily lives.

"It is not a criticism of the European Commission. We are all guilty," said one senior official. "It is not a question of changing the balance of institutions, nor of turning the rudder 180 degrees. But we want to show that we are not building up a great leviathan."

He admitted that defining subsidiarity was proving difficult, and causing divisions between the big and small EC states: the former are happy to carry out more policies at the national level, the latter want them enacted and financed jointly.

The EC leaders are not going to do more than touch on the problems of the European and world currency markets: Germany has strongly resisted any more substantial debate.

The British desire to have a debate on reform of the European Monetary System was flatly rejected by Bonn as both unnecessary and unwise: it would simply cause new speculation in the money markets.

The one potentially explosive issue will be the Gatt negotiations on trade liberalisation, in which Mr Mitterrand appears increasingly isolated in his determination to resist any further concessions to the US.

"It is too sensitive to say anything yet," the German official said. "We will have a report in Birmingham, and then see how the discussion develops."

Mr Kohl does not want to embarrass his closest European ally, but nevertheless, "our position is that it would be an extraordinarily important signal for the world economy, to have a solution to the Gatt round", the official said.

An agreement in Birmingham on the EC's stance at the Gatt negotiations would reinforce the improvement in confidence Mr Kohl hopes to achieve by a declaration on the Maastricht treaty.

He is acutely aware of the need to revive growth not just in the world economy, but in Germany as well, where the slowdown threatens any hope of recovery in the collapsed industry of the east.

France seeks to publicise treaty

By David Buchan in Paris

PRESIDENT François Mitterrand is hoping that today's planned declaration on "subsidiarity" will combine the minimum of institutional change with the maximum public impact to help sell the Maastricht treaty.

It is a strategy which may set him at odds with some EC leaders and the Commission, who favour a clear listing of the respective powers of the EC institutions and national governments.

The focus on subsidiarity should take the form of "a change in behaviour [of EC institutions] rather a new codification of powers," Mr Jean Musiteli, the Elysée spokesman said yesterday.

The principle should be formulated to let people know there would be "a new break with the EC decision-making machinery as it has functioned up to now," said Mr Musiteli.

The French view is that subsidiarity - the sorting out of who does what in the EC - cannot be achieved in a legalistic way. "You would have to be a *surgeon to try to divide with a* scalpel what should be done by the Community and what should be left to member states," he said.

Rather, it should be up to the EC's top politicians, meeting in the European Council, to make political decisions on the political principle of subsidiarity.

The aim should be, said Mr Musiteli, "to reinforce the Community's capacity to take decisions in non-controversial, but essential areas" of policy in and outside the EC.

In this light it is ironic that France expects little or no action on two other items on today's agenda - monetary co-operation and the Gatt trade talks.

Mr Mitterrand will be content to discuss, in general terms, the European Monetary System. Mr Musiteli maintained that last month's crisis showed there was little wrong with the system itself, but that it was provoked by the dollar's fall and aggravated by the internal economic problems of some EMS participants.

This week's failure of US and EC negotiators to produce a breakthrough in the Gatt talks avoids placing President Mitterrand in awkward isolation on agriculture. French officials continued to claim yesterday there was never any question of Mr Mitterrand boycotting the summit. For Mr Mitterrand to have left his chair empty in Birmingham would, for one thing, have raised fresh questions about his health.

NEWS: THE BIRMINGHAM SUMMIT

Irish twist beggars Major in Europe's poorhouse

By David Gardner in Brussels

AS IF John Major's government did not have enough grief: monetary policy in ruins, no sign of an economic strategy, and trying to place Britain at the heart of a Europe in danger of cardiac arrest.

Now it is being suggested that the UK – post-devaluation – is technically poor enough to apply for extra European Community cash from the so-called Cohesion Fund.

This was agreed at Maastricht for Spain, Ireland, Portugal and Greece, and the treaty says handouts from the fund are applicable to those EC member states whose per capita income is below 90 per cent of the EC average – which they all were, and remain.

Mr John Hume, leader of Northern Ireland's Social Democratic and Labour Party, yesterday wrote to Mr Major (with copy to the European Commission president, Mr Jacques Delors), pointing out that UK per capita income at the purchasing power parities of today's rate for sterling is at 87 per cent of the EC average. Bingo. Ergo, could we have some of this Cohesion Fund – which Brussels wants to endow with Ecu10bn (£7.8bn) in today's money – for Northern Ireland please.

Mr Hume, understandably, could not resist being a bit more mischievous. Under EC regional policy rules, the purchasing power parity formula was used to make sure that Northern Ireland is defined as among the most backward regions in Europe, so it can get the most generous EC regional aid grants, even though its average income is in fact higher than the qualifying threshold.

This deal has already had some highly charged political implications. Last year the EC formed a free trade zone with the seven rich Nordic and Alpine countries of the European Free Trade Association. The treaty in question, the European Economic Area, requires the new partners to chip in to help backward areas of the Community to catch up, and defined Ireland, both North and South, as one unit: "The island of Ireland", equally eligible for such handouts.

Mr Hume reminds Mr Major of this precedent, saying "access to the Cohesion Fund would underpin the proper planning of an integrated environmental and transport infrastructure on the basis of the needs of the island of Ireland".

Should Mr Major choose to take up the opportunity offered by the UK's relegation, his alternatives are not appealing. The Cohesion Fund applies to countries, not regions, so he would have to acknowledge that the UK as a whole is in Europe's poorhouse. Or he could say that Northern Ireland should be treated – economically at least – as part of Ireland.

Danes seek opt-outs from Maastricht

By Hilary Barnes in Copenhagen

DENMARK will today propose opt-out possibilities from Maastricht treaty clauses on joint European currency, defence and law enforcement as a means of resolving the deadlock caused by the Danish No vote in June's referendum, Mr Poul Schlüter, the Danish prime minister, said yesterday.

He said that the special arrangements sought by Denmark had to be "legally binding and not limited in time".

"We must succeed in our quest for a special deal if Denmark is to continue to be a member of the European Community," he stated. "There is a formula for solving this problem, but I don't want to elaborate now."

Mr Schlüter, speaking after a meeting of the Folketing's (parliament's) market affairs committee, said the government believed that binding arrangements could be made with the European Community without needing to renegotiate the treaty.

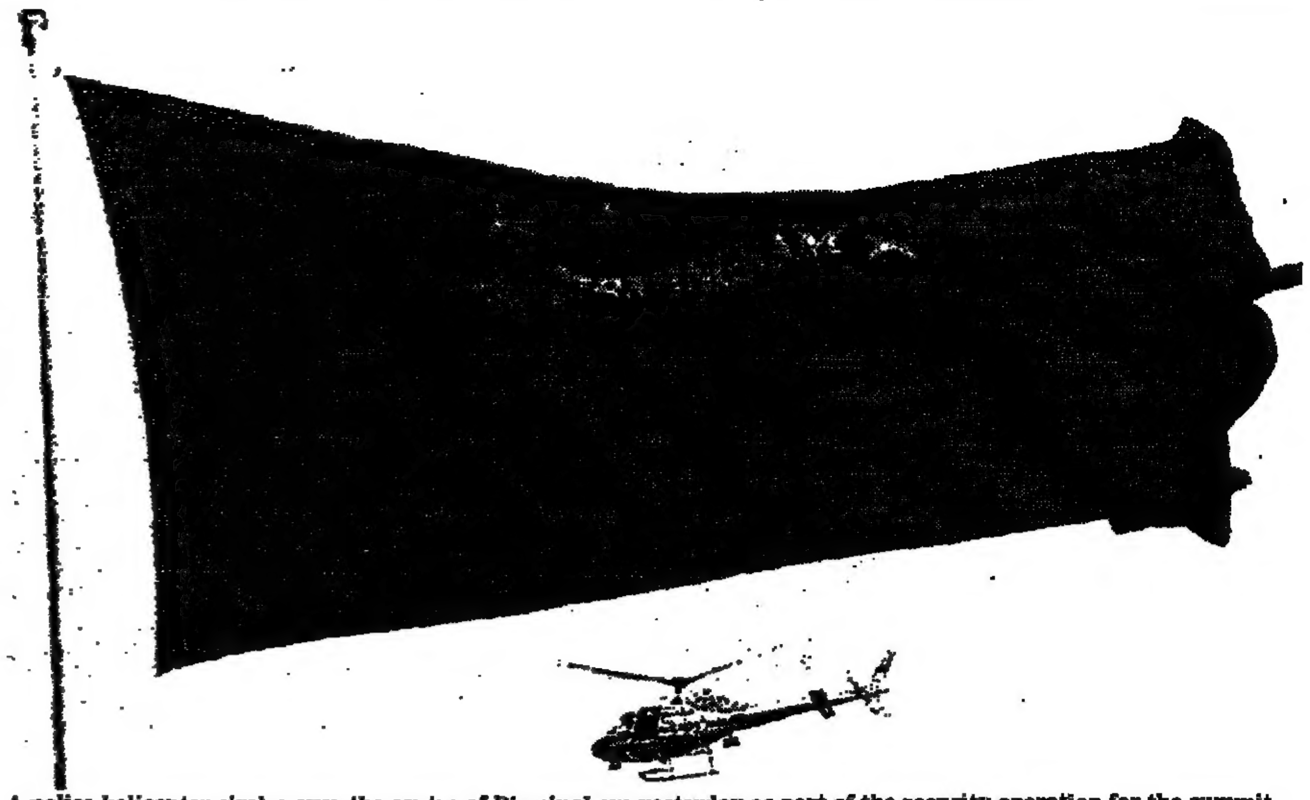
He added that Denmark would also seek more openness and democracy within the EC decision-making process, reiterating its right to run its own social policies.

After several days of negotiation and disagreement among Danish politicians over the terms of the treaty, the market committee gave its unanimous backing to the position which will be taken by Mr Schlüter in Birmingham.

Danish parties, which backed the treaty in the referendum, have said that extensive and binding amendments to the treaty are necessary in order to ensure a Yes in the next referendum. However, other EC members have said they will only consider solutions which do not constitute renegotiation or a new ratification process.

Denmark already built into the original treaty last December a clause making participation in economic and monetary union (Emu) subject to a further referendum later in the 1990s.

Mr Schlüter said a concrete Danish proposal would be ready around November 1 after further talks between political parties in Denmark. The first serious EC discussion of Denmark's special terms will not take place until the EC summit in Edinburgh in December.



A police helicopter circles over the centre of Birmingham yesterday as part of the security operation for the summit

Italy fears two-speed Community would leave it behind

Robert Graham outlines Amato's aims at summit

ITALY'S prime minister, Mr Giuliano Amato, is expected to back his French and German colleagues at the Birmingham summit in pressing to maintain the momentum towards European unity and avoid renegotiating the Maastricht treaty. He will also be anxious to ensure European Community leaders can achieve consensus on the future of the treaty.

The Italian government is aware that disagreements at Birmingham could lead to a two-speed Community, with Italy, a founder EC member, in the slow track.

Last weekend, Mr Amato made brief trips to Paris and Bonn to meet Mr Pierre Bérégovoy, the French prime minister, and Chancellor Helmut Kohl of Germany to discuss summit strategy. Mr Amato is understood to have sought assurances that France and Germany were not planning to go ahead with a two-speed Europe.

The Italian senate has ratified the Maastricht treaty and the chamber of deputies is shortly expected to follow suit. The government has virtually all-party support behind its policy of maintaining a firm commitment to Europe and avoiding a dilution of the treaty's aims or changes in its timetable.

Despite the lira floating outside the European Monetary System and an economy falling well behind the proposed criteria for EC convergence, the government still bases all policies on the premise that Italy will remain an integral part of the EC.

In contrast to British concerns over sovereignty and subsidiarity, the Italian government welcomes the external disciplinary framework of the convergence criteria and the Exchange Rate Mechanism.

However, attitudes have changed since the Andreotti government signed the Maastricht Treaty last December. The Andreotti government took a fundamentally political view of the treaty, believing that even if Italy could not fully comply with the convergence criteria, it could not be excluded from the proposed union in 1997.

The economic and financial crisis of the past three months has served to remind the Amato government that such a political view cannot be taken for granted. If Italy fails to tackle its mountain of debt and its huge public sector deficit, Mr Amato realises the country's EC partners will not feel automatically obliged to hold the door open for the fast track.

Thus at Birmingham, Mr Amato will not merely be restating Italy's European credentials and Italy's desire to re-enter the EMS as soon as possible, hopefully before Christmas; he will also explain his 1993 budget, now going through parliament, and the macro-economic projections for bringing the public sector deficit into line over the next three years.

To retain credibility with his partners, he is also likely to state the government's willingness to submit to close EC monitoring. This in turn is expected to facilitate agreement on an EC stand-by facility of some Ecu5bn (£3.93bn) currently under negotiation.

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Coup idea embarrasses Japanese

By Robert Thomson in Tokyo

THE Japanese government was highly embarrassed yesterday when a military officer suggested that a coup d'état would clean up the political system.

Mr Koichi Kato, chief cabinet secretary, described the coup idea as "extremely inappropriate", and the Defence Agency said the major who made the suggestion in a weekly magazine would be disciplined.

Ordinary Japanese did not take the statement as a serious threat, but the article reminded many of a series of coup attempts and assassinations during the 1930s, when young officers demanded that the government intensify the military campaign in Asia.

The magazine commentary, by Major Shinsaku Yanai, a lecturer in strategy and military history at Japan's Defence Academy, has caused particular embarrassment for the military, as it coincided with the controversial dispatch of Japanese troops on peace-keeping activities in Cambodia.

Maj Yanai's comments were inspired by the controversy over Mr Shin Kanemaru, who resigned from parliament on Wednesday, after public protests over his violation of a political donations law and alleged links to gangster groups.

"History has shown that a military solution is the only way left when democracy does not work and justice is not done," Maj Yanai wrote in an article penned before Mr Kanemaru resigned. "It's now impossible to right the wrongs legally through elections, the basis of a democracy. What paths can we take to get rid of this? Only a coup d'état or a revolution."

Meanwhile, the struggle for control of the faction previously run by Mr Kanemaru may be settled, for the moment, at a meeting today. About seven members of the faction are possible candidates for the title of chairman, but even if a chairman is quickly selected, the dispute could continue for several months.

Mr Kiichi Miyazawa, the prime minister, showed his frustration at the attention paid to Mr Kanemaru's departure, which dominated the Japanese media yesterday. The prime minister insisted: "I am the prime minister and leader of the government".

Mr Miyazawa's future is likely to depend on the outcome of the battle within Mr Kanemaru's old faction, the largest in the LDP, as the premier's faction is not large enough for him to be certain his two-year term in office will be completed.

Attention has also turned to Mr Noboru Takeshita, the former prime minister, on whose behalf Mr Kanemaru is said to have sought the help of gangsters to silence embarrassing protests by extreme right-wing groups.

Opposition parties yesterday demanded Mr Takeshita appear before parliament to answer questions on the episode, while Mr Hiroshi Saito, president of Nippon Steel, Japan's biggest steel maker, made an unusual call for the former prime minister to clarify his role. Business leaders have been more critical of the government in recent weeks; there are signs that the close links between the LDP and corporate Japan are fraying.

Bargain-bin stocks disappear from stores

By Robert Thomson in Tokyo

NOT FAR from the cut-price knitted cardigans and the racks of unfashionable coats, the Nomura Securities counter at the Daimaru department store in downtown Osaka has its own specials – stocks at three-year lows and entire sectors at heavy discounts to the market average.

But Japanese wanting to shop for stocks in a department store had better hurry. The Nomura outlet in Daimaru will close next month, and other brokers are closing their counters as rapidly as they were opened in the late 1980s.

Yamaichi Securities, one of Japan's Big Four brokers, opened 10 "sales offices", as distinct from branches, after the finance ministry agreed in 1985 that a department store or railway station was an appropriate place for a securities counter. Yamaichi has closed all 10 this year.

Another of the Big Four, Daiwa Securities, has closed three department store offices in the past two months and has seven sales offices left. Nomura's 30 sales offices will be reduced to 14 by the end of next month, and the rest are under review after a first half in which none of Japan's 14 leading brokers expects to report a profit.

The "sales offices" were a way around finance ministry restrictions on the opening of branches, and were able to operate as long as the department store was open. One drawback was the expense of installing an electronic stock board and computer equipment, but, more importantly, the ministry "guided" the brokers to limit their sales activities.

Ministry officials insisted that the staff, unlike branch employees, could not knock on doors in the local district. Store-based brokers were also told not to sell "risky or speculative products", such as options and futures.

"We thought the customers would come to us, but they didn't," a Nomura planning manager said. The broker found that the shoppers who wanted to talk stocks or bonds were already Nomura customers, while other potential clients were intimidated by the open-plan style of the stores and wanted more privacy when talking about personal finance.

These outlets were further bruised when ordinary Japanese, already made wary by falling prices, became reluctant to purchase stocks after the surfacing of several scandals, including that of brokers' links to gangsters and the compensation of corporate clients for stock losses.

Canadians address deepening divisions

Bernard Simon looks at the imminent Canadian referendum on proposed constitutional reform

WHEN Canada signed its landmark free-trade agreement with the US four years ago, the country's business leaders were among the deal's loudest cheerleaders.

Many distributed pro-free trade literature to their employees, urging them to back prime minister Brian Mulroney's Conservative government in the 1988 general election.

Four years later, Canadian business is again in the forefront of a political campaign – this time urging a Yes vote in the October 26 referendum on the most far-reaching package of constitutional reforms since the country was formed in 1867.

However, in contrast to their enthusiasm for the free-trade pact, most captains of industry are lukewarm about the contents of the constitutional deal, known as the Charlottetown Agreement. The main thrust of their arguments is to warn of the dire economic consequences if voters reject the agreement.

The prospect of a No victory has already unsettled investors. It is widely blamed for the slump in the Canadian dollar over the past month, from 83 US cents to less than 80 cents, and the consequent two percentage-point jump in banks' prime lending rate.

The gap between short-term Canadian and US rates has widened in the past month from 1.5 to about five percentage points. Standard & Poors, the US rating agency, cited political jitters as one reason for downgrading Canada's foreign currency debt this week.

But, with only two weeks before the referendum and opinion polls putting the No side well ahead in several provinces, business leaders are also anxious not to paint too bleak a picture of Canada's future if the agreement is rejected at the polls.

Mr Tom D'Aquino, president of the Business Council on National Issues, which represents 150 chief executives of Canada's biggest companies, says: "At the very least, we expect there will be a period of uncertainty which may be quite long."

More than a quarter of small businesses polled by the Canadian Federation of Independent Business said it will cut investment or make other changes in their planning if the No side prevails.

But Mr D'Aquino's message to foreign investors in the event of a No vote is: "Put everything in context and don't panic." He raises the possibility that "constitutional fatigue" could put Canada's perennial identity crisis out of people's minds, as it did after Quebec's sovereignty referendum 12 years ago.

Mr Guy Saint-Pierre, chairman of SNC, Canada's biggest project management group, and a leading campaigner for the agreement in Quebec, says that his concern arises less from the immediate fall-out from the referendum than from Canada's long-term future.

"It won't be heaven or hell the next day," Mr Saint-Pierre says. But he predicts that a No vote would embolden Quebec separatists to demand an early election in the francophone province. If they win, and remain true to their principles, Mr Saint-Pierre fears that Quebec could find itself on an inexorable road to sovereignty.

Royal Bank of Canada, the country's biggest financial institution, concluded in a lengthy analysis last month that a break-up of Canada would push the average growth rate down from 3 per cent to 1 per cent a year over the next decade and raise unemployment.

In the event of a break-up, the bank said, "a significant widening in the income gap between Canada and the US could turn the current flow of emigrants into a flood."

The business community remains optimistic that the Yes forces, which were slow to get their campaign into gear, can make up lost ground over the next two weeks. Most polls point to a large pool of undecided voters. Backers of the Charlottetown pact are hoping these people will be swayed by warnings of lower growth, falling living standards and a broken country.

They are hammering home the point that opponents of the deal – who include such uneasy bedfellows as Quebec separatists, western Canadian regional groups, women's activists and former prime minister Mr Pierre Trudeau, an arch-federalist – would never be able to strike a deal themselves.

But supporters of the constitutional reforms, and especially the business community, have yet to muster the fervour of the critics. Because the agreement is a compromise, which gives no region or interest group everything it wants, it has been easy for opponents to pick apart.

Quebec separatists have plenty of ammunition to show that the francophone province got less at the bargaining table than it had wanted.

The business community is genuinely troubled by some provisions of the Charlottetown Agreement.

Sections recognising the "inherent right" of Canada's 700,000 aboriginal people to self-government could prove a headache for fishing, mining and forestry companies. They face the prospect of dealing with another level of government, able to pass laws without necessarily using normal democratic processes.

Business is also disappointed that the federal government backed down in the closing stages of negotiations from earlier demands that the ten provinces make a firm commitment to lower their myriad non-tariff trade barriers.

Mr Jim Matkin, president of the Business Council of British Columbia, says that such concerns mean that business lobby groups cannot push the Charlottetown Agreement as hard as free trade without risking the ire of their members.

Mr Matkin says his reservations about the agreement are outweighed by his concern at Quebec's reaction to a No vote.

Echoing a line of Mr Mulroney, in rallying support for the Yes side, Mr Matkin calls the Charlottetown deal "as good as we can expect – and we can't let the perfect be the enemy of the good."

Highlights of Canada's new constitution

- An elected Senate, with six senators from each province, plus one each from two Arctic territories.
- The Senate can reject bills on natural resource taxation by a simple majority. Defeat of other bills triggers a joint sitting with the House of Commons.
- Key appointments, including governor of the Bank of Canada, to be ratified by the Senate.
- The House of Commons to be expanded from 295 to 337 seats, with extra seats for Ontario and Quebec (18 each), British Columbia (4) and Alberta (2).
- Quebec to gain the right to "preserve and promote "its distinct identity.
- Provinces to acquire exclusive jurisdiction in forestry, mining, tourism and housing; and wider powers over immigration, labour training and culture.
- Aboriginal people to gain an "inherent right" to self-government, enforceable by the courts after five years.

Gore leads attack on foreign policy

By George Graham in Washington

PRESIDENT George Bush's Democratic challengers are trying to turn the tables on some of his proudest achievements in the foreign policy arena.

Senator Al Gore, the Democrats' vice-presidential candidate, has led the attack on Mr Bush's handling of Iraq, acknowledging his successful handling of the Gulf war but saying his earlier policies led directly to the war.

This week, Mr Gore opened up a new line of attack on the nuclear missile cuts that President Bush agreed earlier this year with President Boris Yeltsin of Russia.

Mr Gore claimed the June pact, under which the US and Russia agreed to cut their nuclear arsenals beyond the levels agreed in the Strategic Arms Reduction Treaty to 3,800-4,250 warheads apiece by 1999 and to eliminate multiple warhead missiles, had come unravelled because Mr Bush had taken Secretary of State James Baker away from the negotiations to supervise his re-election efforts.

State Department officials denied the so-called Start II agreement had been hindered by Mr Baker's departure, but acknowledged that they had not yet succeeded in translating the Bush-Yeltsin agreement into a formal text.

Mr Richard Boucher, State Department spokesman, said the discussions were largely technical.

He said he knew nothing about reports that Russia was reluctant to destroy the silos holding multiple warhead SS-18 missiles, which are to be eliminated under the Bush-Yeltsin accord.

Mr Gore charged in his debate on Tuesday with Vice-president Dan Quayle and Admiral James Stockdale, Mr Ross Perot's vice-presidential running mate, that the Start I treaty would eliminate only half of the SS-18 silos, and that Mr Bush had made a mistake by not winning the elimination of the other half.

Mr Quayle contended that Russia remained committed to the elimination of its SS-18s, but did not respond on the silos, which critics of Salt II contend could still be used to launch multiple warhead missiles if they are not destroyed.

"The President does have a commitment from Boris Yeltsin to eliminate the SS-18s; that is a commitment," Mr Quayle said during the debate.

LUANDA FIREBALL: A big military ammunition depot explodes in fire yesterday near the international airport in the north-east of the city, adding to tensions in Angola after the 16-year civil war, Reuter reports. Meanwhile South Africa has made an aircraft available to Mr Jonas Savimbi, leader of former rebel movement Unita, hoping he will meet President Jose Eduardo dos Santos for talks to avert the threat of renewed civil war.

Mr Savimbi disputed the results of the country's first multi-party elections on September 29-30. South African foreign minister Pik Botha has been in Angola since Monday to persuade him to meet Mr dos Santos. Provisional poll results showed virtual victory for Mr dos Santos and his Popular Movement for the Liberation of Angola (MPLA) party, but final tallies indicated a run-off between the two presidential candidates.

Nigerian crisis may delay handover

NIGERIA'S military rulers opened talks yesterday on an electoral crisis that has increased fear that their plan to hand power to civilians could end in chaos, Reuter reports from Abuja.

Officials in Abuja, the capital, did not rule out the possibility that President Ibrahim Babangida might delay his January 2 departure. But they said other options were likely to be studied first.

"It depends on what the NEC [National Electoral Commission] recommends. But there is a climate building up [for Gen Babangida] to extend," one official said.

"If he did that, it would not be of his own volition. He would be compelled by circumstances," the official added.

Any extension of military rule is likely to be viewed with concern by the west, at a time when Nigeria is seeking loans for ambitious industrial projects, including a big liquefied natural gas complex.

Gen Babangida and the 21-member Armed Forces Ruling Council (AFRC) were discussing an electoral commission report on fraud allegations in recent party-run presidential primaries.

Widespread charges of cheating led the military to suspend the primaries in which Nigeria's two government-created parties were selecting their candidates for presidential elections on December 5.

Some officers, supported by Nigeria's 30 civilian state governors, are known to be ambivalent on Gen Babangida handing over to civilians in the present atmosphere of acrimony among civilian politicians. The governors on Wednesday ended a two-day meeting in Lagos, with a statement saying they opposed "a chaotic and uncertain handover that may lead . . . to another military intervention".

Brazil 'still committed' to reform of economy

By Stephen Fidler, Latin America Editor

BRAZIL'S acting president Itamar Franco said yesterday his government remained committed to the "basic principles" of the modernisation programme started by President Fernando Collor, who was suspended last month on corruption charges.

In a message to the Brazilian Chamber of Commerce in Great Britain, yesterday celebrating its 50th anniversary, Mr Franco underlined his support for "the full normalisation of our relations with the international financial community, the uninterrupted implementation of the privatisation programme and the opening up of the Brazilian economy."

He said Brazil "will always welcome the foreign capital wishing to share with us the risks of the market economy and the challenges of development."

In a speech to the chamber, Mr Michael Heseltine, President of the UK Board of Trade, urged the Brazilian government to move quickly with the implementation of adequate intellectual property legislation and to continue to reduce tariffs, which currently average 20 per cent. He also stressed the importance of Brazil's fiscal reform efforts.

He welcomed recent moves by the Brazilian government to improve the climate for foreign investment, and said he looked forward to the removal next year of constitutional limitations on foreign investment in mining and oil and gas exploration, production and refining.

He said British companies, which already had about £1.5bn of investments in Brazil, were particularly interested in developing trade in several sectors: the construction of the gas pipeline between Bolivia and São Paulo; cellular telephones and fibre optics; ports and airports; oil and gas production; water treatment and consumer products.

NEWS IN BRIEF

Clashes follow Palestinian death

Stone-throwing rioters clashed with police after hearing of the death of a Palestinian who had been fasting to demand better prison conditions, and protests continued yesterday with a strike, AP reports from Jerusalem.

Police broke up several protests in Jerusalem following the announcement on Wednesday night of the death of Mr Hussein Nimr Assad, 26. Prison authorities said he died of a heart attack.

Mrs Hanan Ashrawi, spokeswoman for the Palestinian delegation to the Middle East peace talks, called the death "very tragic" and said it could undermine US-backed Middle East peace negotiations.

Police Minister Moshe Shahal told Israel radio that an investigation has been launched to determine whether the death was related to the fast.

US prices level off

US consumer prices rose a slight 0.2 per cent in September, the government said yesterday, as a weak economy and wary consumers kept retail inflation in check, Reuter reports from Washington.

The scant rise brought inflation so far this year to a 2.9 per cent annual rate. If maintained, that rate would be the lowest since 1986, the department said.

A 0.7 per cent drop in petrol prices restrained the overall September gain in the Consumer Price Index, which was down from a 0.3 per cent increase in August. Excluding volatile food and energy costs, the so-called core rate of inflation rose 0.2 per cent.

Peru rebel leader gets life

Peru's highest military court has upheld the life sentence imposed on Shining Path leader Mr Abimael Guzman, AP reports from Lima.

The decision late on Wednesday by the Supreme Military Tribunal turned down the second and last appeal allowed to Mr Guzman's defence, ending any minimal hope he might have held for finding a legal loophole to freedom. In a communique, the military said Guzman will serve his sentence, without possibility for parole, on the island of San Lorenzo.

Attack sparks Cuba protest

Cuba has strongly protested to the US about a machine-gun attack last week on a five-star tourist hotel at the Cuban beach resort of Varadero, Reuter reports from Havana.

"Cuba has protested strongly to the US government about terrorist activities against Cuba carried out from US territory by persons supported by the US government," a Cuban foreign ministry spokeswoman said. She said the protest was related to an incident on October 7 in which a Spanish-Cuban joint venture hotel, the Melia Varadero, was strafed with machine-gun fire.

Police kill Sikh militants

Indian police yesterday shot dead the "originator of terrorism" in Punjab, said the state's police chief, Mr K.P.S. Gill, Reuter reports from Dhun, India. Mr Talwinder Singh Permar and five other Sikh militants were killed by police near the city of Jalandhar, Mr Gill said. He said Mr Permar, one of the most wanted men in Punjab, was one of the first to turn to violence in pursuit of an independent nation in the state.

China rejects British proposals on Hong Kong airport finance

By Simon Davies in Hong Kong

THE long-standing Sino-British deliberations over the financing of Hong Kong's new airport reached another impasse yesterday when China's negotiators rejected Britain's latest proposals, despite these being based on ideas put forward by the Chinese.

Mr Anthony Galsworthy, Britain's senior representative within the Sino-British airport committee, said "they criticised most aspects of [the] proposals, but they put forward no ideas of any kind of their own".

Britain had suggested injecting an extra $HK40bn (£3bn) in revenue from land sales connected to the airport infrastructure, in an adaptation of China's own proposals.

China's main concerns were over the possibility that Hong Kong might be saddled with airport-related debt after 1997 when sovereignty of the colony reverts to China.

The latest proposals were viewed as a more cost-effective strategy, which would at least buy the support of China.

The only interpretation of China's latest refusal to play ball is that the discussions are now purely about politics and not economics.

There had been little expectation of any resolution of the dispute before Governor Chris Patten's visit to Beijing next week.

The proposals had been met with a barrage of criticism from pro-Beijing newspapers that only weeks before had been offering similar ideas as a workable solution.

Mr Galsworthy indicated that Britain would not be calling for a further meeting. "I think it is impractical for the British side constantly to produce new proposals which the Chinese side then reject. If they don't like our proposals, we would expect them to produce some ideas of their own," he said.

Mr Patten has said that if China wanted to go ahead, a decision could be reached in a morning, over a cup of coffee.

But he has six weeks to get to the coffee table before the close of the deadline for the $9bn airport site formation contract.

Beyond November, this contract might have to be re-tendered, resulting in the escalating costs that the Chinese negotiators claim to be most anxious to avoid.

E Europe's crumbling N-plants

West's fears delay repair to reactors

By Bronwen Maddox, Environment Correspondent

AN INTERNATIONAL convention to smooth the way to repair of eastern Europe's crumbling nuclear reactors is being held up by fears among western governments and companies that they will be held liable for future radioactive leaks.

As governments wrestled with the problem at a meeting of the International Atomic Energy Agency conference in Vienna yesterday, the Ignalina reactor in Lithuania, the world's largest remaining Chernobyl-type reactor, was shut down for the second time in two months after an internal radiation detector reported 50 times the normal level of radioactivity. Lithuanian radio said there was no danger to local residents.

At the same time, environment officials in Bulgaria said the accident-ridden Kozloduy nuclear power plant almost exploded last month when the main switch on a 1,000MW unit short-circuited.

Kozloduy has been described as Europe's most dangerous reactor, and the EC has provided emergency funds for repairs. It cannot be shut down because it supplies half Bulgaria's electricity, and its output was due to be increased in the next few weeks because of colder weather.

The week-long IAEA meeting has been split over a proposal to make United Nations countries collectively foot the bill for cleaning up after future nuclear leaks. The convention will determine who is liable.

The question of liability has become an acute concern since the European Commission began providing funds in the past two years for urgent repairs to the eastern European and former Soviet reactors. Piecemeal repairs are proceeding but many companies have refused to accept liability.

Mr David Kyd, spokesman for the IAEA, said: "There has been great uneasiness among western manufacturers that if something goes wrong in those reactors they could face law suits because their name is on the equipment."

He added: "This convention will eventually cover that issue, but maybe not soon enough to solve the immediate problems."

The IAEA and Germany have proposed to the agency's standing committee on nuclear liability, which is drawing up the convention, that all signatories should collectively assume liability, including liability for former Soviet and eastern European reactors to enable them to obtain finance for repairs.

However, Britain and France have objected that other countries should not be forced to pay for accidents at the eastern European reactors.

The IAEA standing committee has moved towards a consensus that there should be an international commission to settle claims for liability, although Britain and France have also resisted this move.

A final decision on the liability question is unlikely before the standing committee's next meeting in March.

Panic claims breakthrough after Kosovo talks

By Laura Silber in Pristina, Yugoslavia

MR Milan Panic, the Yugoslav prime minister, yesterday claimed he had made a breakthrough with ethnic Albanian leaders in the Serbian province of Kosovo after pledging to abolish discriminatory legislation.

"We have to democratise the system...on the long road towards establishing democracy in Kosovo, we have made the most important steps," said Mr Panic in Pristina, the capital of Kosovo, after talks with Mr Ibrahim Rugova, the leader of Kosovo's ethnic Albanian majority.

"Mr Panic has agreed to lift all discriminatory laws and I am grateful for that," said Mr Rugova.

The chief of the Bosnian Serb air force said *yesterday he did not intend to hand over his* warplanes to the rump Yugoslavia despite an announced agreement, Tanjug news agency said, Reuter reports from Banja Luka, Bosnia. Major-General Zivomir Ninkovic was commenting on an agreement in Geneva under which Bosnian Serb political leader Radovan Karadzic said he would move the planes to Yugoslavia to prove they were not being used in defiance of a UN "no-fly" order

The prime minister's visit followed clashes this week between Serbian riot police and thousands of Albanians demanding the reopening of Albanian language schools and universities closed by the Serbian authorities.

If Mr Panic succeeds in brokering a peace between the region's radicalised Serbs and its Albanians, he will have scored an important victory in his struggle with Serbian president Slobodan Milosevic.

Kosovo's Serbs, who comprise just 8 per cent of Kosovo's 2.1m population, mistrust Mr Panic. They revere Mr Milosevic for bringing the province under direct rule by Belgrade three years ago, when he stripped Kosovo of its autonomy, dissolved the parliament, and discontinued Albanian language media.

While Mr Panic has to convince Serbs of his nationalist credentials, he faces an equal challenge in persuading Albanian political leaders to accept being part of a country they have renounced. He must prove he can deliver on his pledge to democratise a province under virtual apartheid.

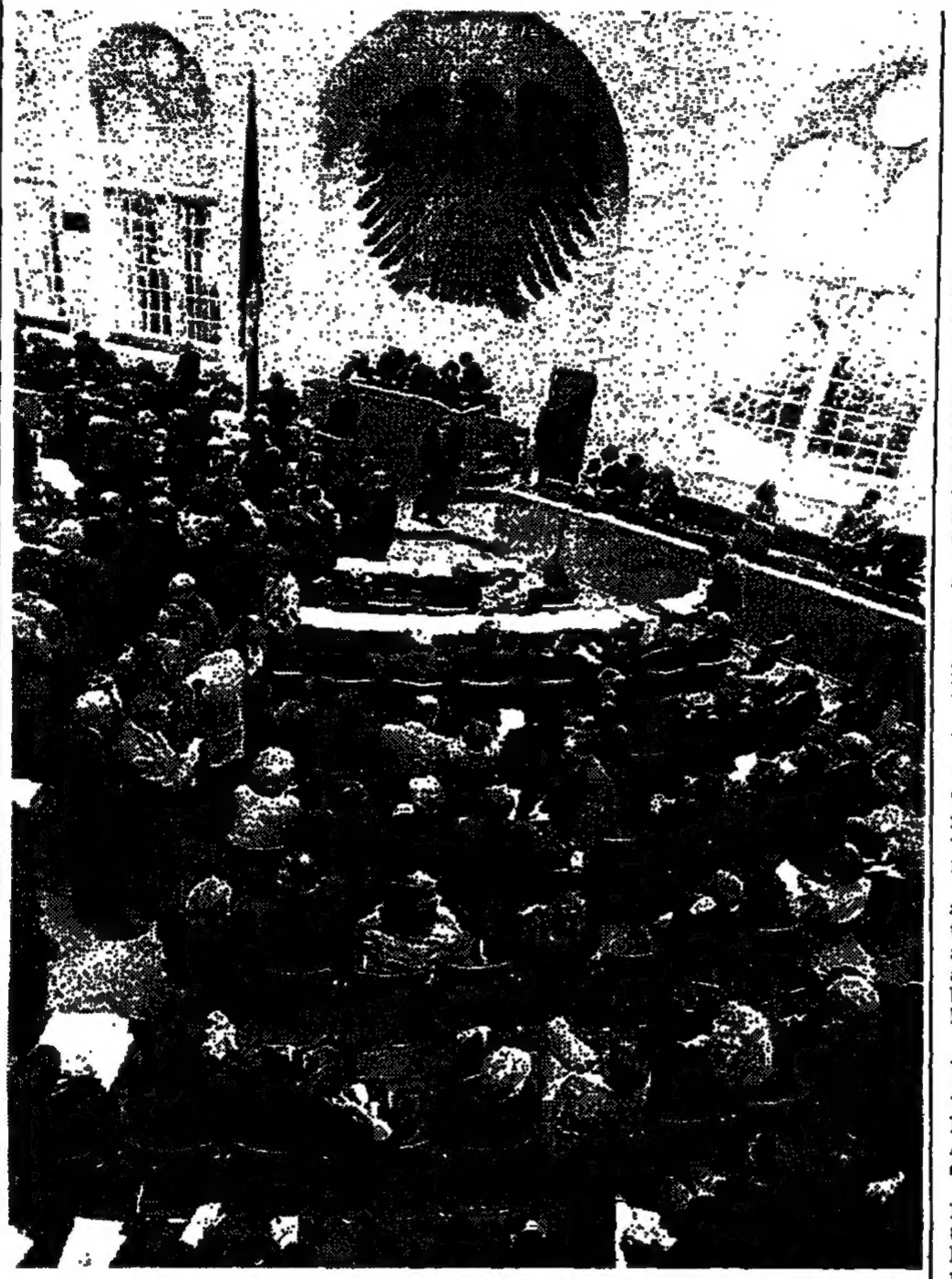
Albanians have boycotted state education, attending underground schools, and rejecting curriculum foisted on them by Belgrade.

The threat of war in Kosovo, after the death and destruction in neighbouring Bosnia, may strengthen Mr Panic's hand. It may steer Serbs and Albanians into reaching a compromise. Even Kosovo's Serbs, who control the province's state enterprises, have been hard hit by the war and United Nations' sanctions against Yugoslavia.

● Britain yesterday despatched a first party of Germany-based troops to Bosnia and fended off criticism by Mr Cyrus Vance, the UN mediator, about the time taken deploying forces to help UN relief efforts, writes David White, Defence Correspondent.

The UK contingent, the largest among the forces assigned to the UN Protection Force II, is being increased by a third from initial plans announced a month ago, to 2,400. This will include 400 engineers sent to set up accommodation, water supplies and sanitation.

Britain has to change its initial plans for escorting aid convoys in order to avoid crossing ethnic boundaries. Its force, to be fully deployed by November 13, will have its main logistics centre at the port of Split, with a battalion base at Vitez, northwest of Sarajevo. The new UN force includes French, Canadian and Spanish units.



Opposition Social Democrats in the German parliament remain in their seats, *boycotting a vote yesterday on changing the constitution to stop the flood of foreign* refugees, Reuter reports from Bonn. As a result, Chancellor Helmut Kohl was denied the necessary two-thirds majority and the motion failed. The SPD had wanted the debate postponed until after it holds a special party congress on the issue next month.

NEWS IN BRIEF

German output 'will stagnate'

WESTERN German industry expects output to stagnate in 1993, after a 1 per cent fall this year, writes Christopher Parkes in Frankfurt. Leading companies expect the worst of the downturn to be over by year-end, according to the Ifo economics institute in Munich.

Meanwhile, the German engineering industry is labouring in depressed international markets. Many companies, including machine-tool makers, will record losses this year, Mr Berthold Leidinger, president of the VDMA industry association, said yesterday. The average net return on capital had fallen to an all-time low of less than 1.2 per cent. The industry, which has annual turnover of DM250bn (£100bn), would have to cut costs by up to 30 per cent to remain competitive, Mr Leidinger added. The 40 per cent appreciation of the D-Mark against the dollar and a revaluation of 20 per cent against the yen over the past three years was an especially heavy burden.

The motor industry has also warned of the need for cost reductions which could trim 200,000 jobs in the next few years.

● Germany's Lufthansa airline plans to cut about 400 pilot jobs in 1993, as part of its cost reduction efforts, Reuter reports from Frankfurt. Lufthansa employs about 3,200 pilots.

Russian curbs lifted

The Russian government has lifted travel restrictions on all foreigners, in a long-awaited step which removes one of the last vestiges of the Cold War and may help encourage foreign investment, writes Leyla Boulton in Moscow.

A government spokesman said yesterday that business people and journalists will no longer need to give advance notice of travel plans, once they have a visa to enter the country. They will also no longer need to show visas to buy tickets and book accommodation, and can do this through private organisations, by-passing traditional state monopoly organisations such as Intourist.

Norwegian ratification

Norway's parliament is expected to ratify the European Economic Area (EEA) agreement by a narrow margin today, despite many demonstrations against the deal, writes Karen Fossli in Oslo.

The pact – to link the European Community and the European Free Trade Association, of which Norway is a member – needs the backing of two-thirds of the country's 165-seat parliament. At least 42 votes would be needed to block it, but only 35 or 37 representatives are expected to vote against it.

About 20,000 North Sea oil workers staged a one-hour strike opposing the ratification, which they claim would jeopardise their jobs when Norway is opened to foreign competition.

Hungarian dam appeal

Hungary has called for a special meeting of the eight-nation Danube Commission to discuss Slovakia's plans to divert the river across its territory this month, a commission official said yesterday. The Danube forms part of the two states' common border, Reuter reports from Budapest.

The move is part of Hungary's efforts to prevent the creation of a billion-dollar hydroelectric scheme, which Budapest says would cause an environmental catastrophe and violate Hungary's territorial integrity.

Slovakia, which will quit the Czechoslovakian federation early next year, is due to divert the Danube on October 20 to drive its Gabcikovo hydroelectric power station.

Swedish jobless 'rising'

Swedish unemployment looks set to rise as high as 9 per cent by next autumn, according to forecasts for 1993 published yesterday by the country's Labour Market Board, Robert Taylor writes from Stockholm. This would be the highest level recorded in Sweden since 1941.

Brazil's reforms win praise from Gatt

By Frances Williams in Geneva

THE General Agreement on Tariffs and Trade (Gatt) has praised Brazil for its sweeping trade liberalisation programme, implemented despite serious economic difficulties in just two years.

In a report yesterday the Gatt secretariat says the trade reforms have achieved impressive results in bringing about a marked change of direction in Brazil's long tradition of inward-looking policies.

However, Gatt warns that the liberalisation efforts could be put at risk by failure to tackle domestic economic imbalances, including rampant inflation, and achieve sustained economic growth.

Mr Celso Amorim, Brazil's Gatt ambassador, assured Gatt's governing council during discussion of the report that the new government of President Itamar Franco was committed to the liberalisation process. He said the economic reforms commanded a growing consensus within Brazilian society.

The economic system based on import substitution and state intervention, under which Brazil had built up its diversified industrial base to become the world's tenth biggest economy, had not failed but had reached its limits, Mr Amorim said.

Trade liberalisation has been a key element in Brazil's structural adjustment programme adopted by the incoming democratic government in March 1990 to stabilise the economy and boost industrial efficiency and competitiveness. Brazil is a leading exporter of coffee, soy meal, orange juice, iron ore and steel products. Its main customers are the US and EC.

Since 1990 the Brazilian government has scrapped almost all import restrictions, streamlined trade procedures and slashed tariffs, notes the report. Remaining restrictions in the informatics sector are due to end this month and by mid-1993 tariffs will average just over 14 per cent against 41 per cent in 1989.

"A highly restricted and regulated trade regime has been changed in a relatively very short time into one largely free of quantitative restrictions," the report says. It has thus "become considerably more transparent and less discretionary".

However, the Gatt secretariat says price and exchange rate stability, and sustained economic growth, are "a necessary condition" for consolidation of the reforms. "Failure to control inflation, to revive economic activity, and to tackle rising unemployment, would increase the political odds against the success of the liberalisation experiment."

Though the recent debt restructuring agreement signed by Brazil with commercial banks "should ease some of the pressures on economic management", inflation is still running at over 20 per cent a month while sluggish economic activity in recent years has cut real incomes.

The report adds that Brazil's membership of the Southern Cone Common Market (Mercosur) cannot provide a substitute for a successful conclusion to the Uruguay Round of global trade talks, which would improve Brazil's access to markets in industrial nations for its exports.

Many of its principal exports are affected by trade restrictions in foreign markets, while dumping of farm surpluses by the major traders is preventing Brazil from expanding agricultural exports.

The country's trading patterns make it likely to benefit more from multilateral liberalisation than from bilateral or regional groupings.

Italian unions win Amato concession on pensions cap

By Robert Graham in Rome

ITALY'S trade unions, which staged a four-hour general strike over welfare cuts on Tuesday, have won limited concessions from the Amato government.

The government agreed to a slight lifting of the ceiling on pensions proposed for next year and said pension payments would rise a total of 3.5 per cent next year in two tranches. To compensate, the government introduced measures to cover the extra expenditure.

In a second concession, the government replaced the proposed ceiling of L40m (£18,000) annual income which would trigger a cut-off in health service benefits. This would have excluded 20m people, according to the unions. A formula has been introduced lowering the ceiling to L35m for single people but raising it to L65m for large families.

The semi-indexation of pensions, at just over 1 percentage point below inflation, will cost an extra L3,600bn. However, the government insisted the overall target of holding the public sector deficit to L93,000bn remained in place.

Extra revenue of L1,500bn would be raised by two main devices: a 1 per cent increase in national insurance contributions from those with incomes over L52m; and L800bn by making ENEL, the electricity authority, cover itself the cost of servicing debts contracted during 1986-89.

● The government yesterday converted into a decree law the bill ending the dockers' monopoly in Italy's ports, writes Haig Simonian in Milan.

The European Commission had set a September 30 deadline for ending the monopoly and the decision, though it will be welcomed by port employers, may trigger fresh industrial action.

● Prosecutors are examining government files on Italy's aid operation for Albania after members of parliament alleged some food suppliers had been overcharging, Reuter adds from Rome.

Italy donated 125,000 tonnes of food to help Albania through the winter of 1991 after an exodus across the Adriatic of 45,000 refugees fleeing hunger and poverty the previous March and August.

Du Pont and Mitsui to form alliance in Asian markets

By Robert Thomson in Tokyo

DU PONT Japan, the Japanese arm of the US chemical maker, and Mitsui, the Japanese trading house, yesterday announced plans to establish a joint venture company to increase both partners' penetration of Asian-Pacific markets.

The new company, to be formed next month, will attempt to match Du Pont's product development skills with Mitsui's extensive regional branch network, as well as considering new product areas for both companies.

Mitsui said the agreement followed an approach by Du Pont. It is a sign of Japanese companies' willingness to form strategic partnerships with foreign producers to take advantage of growing demand in Asian markets.

The trading house has close ties to Mitsui Toatsu Chemicals, the country's third largest chemical manufacturer, and to Mitsui Petrochemical Industries, which are both members of the Mitsui keiretsu, or family of companies.

Mitsui said the agreement with Du Pont would not compromise existing partnerships that the two have with other companies, nor would it disrupt their existing business networks in Asia. The new company, to be called Du Pont MBK Alliance, is likely to have a capital of Y100m (£467,000).

Europe's steel industry peers into the abyss

Collapsing prices threaten to undo the gains from restructuring in the 1980s, writes Andrew Baxter

IT IS crisis time again in the European steel industry. Falling demand, lower exports and increased cut-price imports have in the past few months accelerated a gradual decline in prices that began in mid-1989. Worse is to come.

The steel market, says Sheffield-based consultancy Meps Europe, is in disarray. Steelmakers are rushing to offer customers incentives on already "incredibly low" selling prices.

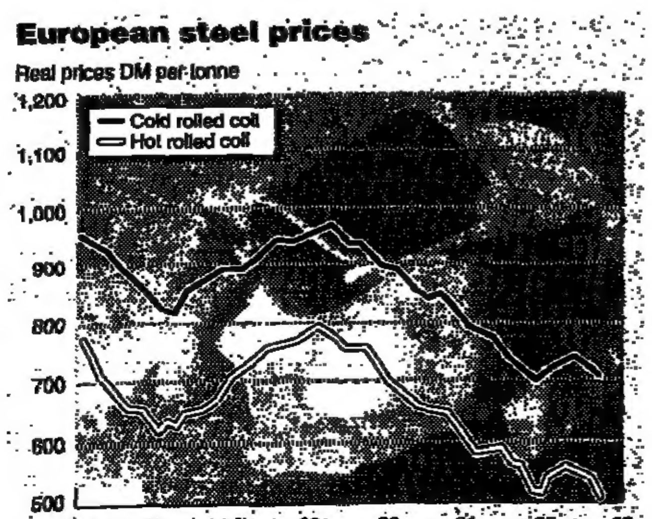
Some EC steelmakers, it says, are offering to sell 25 per cent of deliveries to customers as "over-rollings," which are invoiced at a substantially lower price than for prime material. In reality, all the material delivered is prime. Other mills are delivering on a "pay-as-you-use basis" or offering extra rebates in return for guarantees to purchase specified quantities of steel.

Last month, says Meps in a review out next week, steel prices plummeted in Germany, France and the Benelux countries as low-priced offers from steelmakers in EC countries which have devalued their currencies disrupted the market.

Almost all Europe's steelmakers are running at a loss, as the downward price spiral forces them to sell below their full cost of production. "The industry is feeling very shell-shocked," says a consultant, Dr Rod Beddows. "People are saying it's the end of the world."

This week, Europe's steelmakers got together to try to avert the looming catastrophe. Through Eurofer, the confederation of EC iron and steel producers, they submitted to the European Commission an ambitious scheme seeking financial support for redundancies; guidelines from the Commission on production, consumption, exports and imports to help the industry adapt to changing demand, and action against allegedly unfair imports, particularly from eastern Europe.

The scheme raises a decades-old public policy dilemma that sank from view all too briefly in the boom years of the late 1980s – how to handle the long-term decline of a politically sensitive industrial sector whose importance tapers off in a developed economy. But this time the policy responses could be different.



Source: MEPS Europe

Eurofer is adamant that is not crying wolf. Without urgent help, says Mr Dietrich von Hülsen, Eurofer director general, the industry could throw away all the achievements from the restructuring of the industry in the 1980s, and risks returning to the "unilateral financial measures" once common in the industry – state subsidies which are against EC law.

Yet it is fair to ask quite how an industry which has received an estimated DM121bn (£48bn) of direct subsidies over the past 15 years, and was turned upside down in the 1980s, has got itself in its current fix.

In 1988, the industry emerged from eight years under the Davignon plan, named after the commissioner responsible, and introduced under the Article 58 "crisis" clause in the 1951 European Coal and Steel Community Treaty.

During that time, production capacity for hot-rolled products fell from 194.5m tonnes in 1980 to 165m tonnes and employment was slashed from 672,000 to 409,000. The steel industry emerged from the Davignon period financially stronger, helped by state aid, and apparently well positioned to make profits.

But the late-1980s boom was too short for companies to benefit fully, and the subsequent recession has exposed the industry's structural weaknesses and failure to learn from past mistakes. Overcapacity is estimated at 10-20 per cent, and the industry is still chasing market share and hence depressing its own prices.

In particular, it is shooting itself in the foot by matching the low prices for subsidised East European steel. The effect on overall prices has therefore grown out of all proportion to the relatively small amounts imported.

Prices for flat products, for example, are now 30 per cent below 1989 levels. Earlier this month, the International Iron and Steel Institute forecast EC steel consumption at 105.4m tonnes for 1992, down nearly 10 per cent from 115.5m tonnes in 1990. The estimate, says Eurofer, is "rather optimistic."

With little or no chance of the situation changing in the short term, Eurofer wants EC help so that the industry's restructuring can continue. Meps expects 70,000 of the remaining 385,000 jobs in the EC steel industry to go by the end of 1996, and another heavy round of mergers and consolidations is looming.

While some in the industry have called for another Davignon plan, Eurofer is not invoking Article 58. It wants a large part of the Ecu750m (£590m) fund established under the coal and steel treaty used to help finance another 50,000 job cuts which the industry is planning over the next three to four years, notably in the Netherlands and Germany.

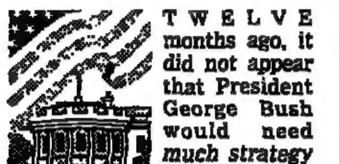
Discussions with the Commission are in their early stages, but Mr von Hülsen believes the EC has a responsibility under the treaty to prevent the sector sinking further.

However, the restructuring could cost Ecu4bn in total, and would almost certainly exacerbate the row between the US and the EC over steel trade. US steelmakers who have to finance redundancies themselves would complain violently, says Dr Beddows.

There are doubts too, over whether the EC would any longer be prepared to intervene in the steel industry to such an extent as to draw up production and trade "guidelines". Whatever the result of the Eurofer plea, west European steel producers should do what they can to stabilise prices by helping their east European counterparts develop viable marketing and pricing strategies in return for agreed shipment levels, says Dr Beddows.

Bush election cruise sails perilously near the rocks

Jurek Martin explains why lack of strategy helped to undermine the President's re-election battle



TWELVE months ago, it did not appear that President George Bush would need *much strategy* to win re-election. Riding high in the opinion polls after the military and diplomatic triumphs of the Gulf War, with reasonable predictions of economic recovery for 1992, and with the leading lights of the Democratic Party *unwilling to take him on, he* could have been excused for anticipating a leisure cruise to a second term.

When things first began to go awry - the Pennsylvania Senate by-election loss last November, the disastrous trip to Japan in January and the general emergence from the warm Gulf hangover - Mr Bush *and his advisers still* seemed more puzzled than worried. Then along came Mr Pat Buchanan and his right-wing insurgency.

Mr Bush seemed torn between a compulsion to compete *with Mr Buchanan for* President Ronald Reagan's right-wing cohorts, who had helped him to victory in 1988, and treating the polemicist with presidential disdain while proclaiming the virtues of the middle ground. Though never a real threat for the Republican nomination, Mr Buchanan succeeded in preventing Mr *Bush from staking out any* kind of early strategic position beyond proclamation of his experience.

In contrast Governor Bill Clinton's long run always had a consistent strategic purpose. *Still pinned to the board in his* Little Rock war–room is the slogan. "the economy, stupid," an admonition to the candidate and his campaign never to swerve from this central issue. From the very beginning there was a proliferation of position papers on every known social and economic policy subject. Mr Paul Tsongas, with some temporary success, was equally explicit.

The second string was an equally clear determination to *rid the Democratic Party of its* left-wing baggage to make it more acceptable to the white and suburban vote that had gone Republican in droves in the last three elections.

This meant not only winning primaries but also handling the traditional party power bases, organised labour and the Rev Jesse Jackson, the *black leader, in such a way as* to make it clear that the candidate was beholden to neither.

Simultaneously, as Mr Bush's team of advisers was increasingly seen bickering - with Mr Sam Skinner making a hash of the pivotal post of White House chief of staff - the Clinton core was toughened and united by the adversity of *all the stories about the candidate's* private life.

Perot streaked across the springtime political sky

Amid the debate over vice president Dan Quayle's pres*ence on the Republican ticket,* Mr Clinton defied the conventional wisdom by choosing Senator Al Gore, a man of his own age and beliefs and from the same part of the country. Consistency was successfully *portrayed as a virtue and the* Democratic convention in New York in July was a display case for the candidate's centrism, run with an efficiency once typical of Republicans.

Mr Ross Perot streaked across the springtime political sky, potentially upsetting all political calculations. But he disappeared abruptly in July, only to resurface with a month to go. An eye-catching performance in the first debate has *reignited interest in his independent candidacy*, but almost certainly not to the point that he could win the White House.

The sudden surge from last *to first by Mr Clinton in July* put the Bush campaign very much on the strategic spot, not least because Mr Clinton refused to sit on his new lead. The immensely successful post-convention bus tours of *the mid–west and the farm* belt preserved momentum at precisely the time four years before that Mr Michael Dukakis took a holiday and squandered his.

If New York in July was Mr Clinton's apex, Houston in August was Mr Bush's nadir. Patently needing to reclaim the middle ground, his campaign *allowed the far right to dominate* the convention with its exclusionary dogma.

Mr Bush may actually have given a better acceptance address than Mr Clinton a month before, but the messages from Houston were dominated by the apocalyptic warnings of religious, social and cultural wars pouring from the *mouths of Mr Buchanan, the* Rev Pat Robertson and Mrs Marilyn Quayle.

Deprived of a convention "bounce," Mr James Baker, back in the White House saddle, was left pretty much devis*ing strategy from scratch. Initially*, this involved some serious attempts to differentiate the president's economic philosophies from Mr Clinton's but, as this too failed to take hold, the approach became progressively negative, first with assaults on Mr Clinton's record in Arkansas and later with the scarcely veiled suggestions that he was unpatriotic and even a coward.

Even some traditional Republican advantages - such as finance - became less overwhelming. Both candidates receive equal federal funding (about $55m each), but the Democrats normally find it harder to raise money from individual and corporate contributions.However theyraised $43.5m from July *to* September, and the Republicans only $26.7m. This still left the Republicans with a cumulative $96.2m to $69.8m edge, but it means Mr Clinton has not been short of funds down the stretch, where it matters.

The electoral map has also begun to look less lopsided. The last three Republican victories were based on dominance south of the Mason-Dixon line and west of the Mississippi, with a reasonable split elsewhere. The Democratic choice of Mr Clinton, a border southerner, threw down a gauntlet in the Republican heartland.

Mr Bush has never been very popular in California, carrying it only narrowly in 1988. Now it seems long gone, Texas and the deep south look fragile and the mountain states, with their own brand of rugged independence, are unpredictable. Thus, Mr Bush must do much better than he had any reason to hope in the industrial mid–west in order to have a chance. That *is a* part of the country where, as California, the recession has bit deepest.

The US is now a very fragmented electoral market and endorsements matter much less than they used to. Voter *participation remains low*, especially among minorities, which tends to help Republicans. This year only Mr Perot can be said to have generated real enthusiasm, but, with the possible exception of the Christian right, it is the Democrats who have been conducting the more effective registration drives. Also, while holding on *to liberal Democratic constitu*encies, Mr Clinton has secured some transfers of allegiance from the traditionally solid Republican corporate sector on Wall Street and in Silicon Valley.

Powerful lobbies, like the National Rifle Association and the various ex-servicemen's groups, have been less public in support of Mr Bush than is usual. One, the Veterans of Foreign Wars, made the firing of a cabinet member a condition for its backing. Mr Bush's refusal to go the last mile in supporting the Brady bill, controlling hand–gun sales, led to a very belated and lukewarm *endorsement from the leading* policemen's association.

There is a widespread assumption that the largest single voting bloc - women - have sharply turned against the president, because of his opposition to abortion, family leave and other issues of importance to women, not least the provision of economic opportunity. It is not a coincidence that of the record number of 11 women running for the Senate this year, 10 are Democrats.

Mr Clinton's identification with local Democratic candidates seems much closer than Mr Bush's to Republicans. In states like California and Illinois, with popular women Senate candidates, the benefit to Mr Clinton may be considerable.

In general, the prevalent anti-incumbent mood does not now seem to threaten Democratic control of Congress and Mr Bush's attempt to blame everything on the those run*ning the legislature simply has* not taken hold. With 57 current Senate seats, the Democrats are now openly talking of ending up with at least 60, which happens to be the majority needed to invoke "cloture" and push legislation through. There will be many new faces in Congress - perhaps more than in any post-war election - but their party loyalties and their legislative agendas remain obscure.

The ultimate Republican tactical weapon has been to try and repeat the success wrought by negative advertising in 1988. Mr Clinton is, on personal grounds, an unusually vulnerable presidential candidate. But what worked four years ago has been less effective this year. The Conservative Party's campaign tactics in Britain this spring have been the model for the Bush Republicans, but it is not always automatic that political tactics import easily. In particular the absence of the late Mr *Lee Atwater has deprived* Mr Bush's effort of an instinct for the jugular.

In the last analysis, however, the strategic and tactical factors cannot by themselves win an election if the country has lost sympathy with the character of a candidate, incumbent or otherwise, or if the great common denominator, the economy, has turned sour. This was the great lesson of 1980, which 1992 in many respects now resembles.

The battle for electoral college votes

The West

Clinton leads not only in traditionally Democratic states like Washington and Oregon, and in more marginal Colorado, but even in Republican strongholds *Arizona* and Idaho, which gave Bush more than 60 per cent of their votes in 1988. Most importantly, the economic recession in California appears to have given Clinton an unassailable lead in this state with the most electoral weight in the US

Clinton		Bush	
Clinton leads		**Bush leads**	
Washington	11	Utah	5
Montana	3	**Bush inclined**	
Oregon	7	Wyoming	3
California	54	Nevada	4
Colorado	8		
Clinton inclined			
Idaho	4		
Arizona	8		
New Mexico	5		
Clinton leads		Bush leads	5
Clinton inclined		Bush inclined	7

The Midwest

Bush campaigners have all but given up hope in Illinois, and Clinton also appears comfortably ahead in the Great Lakes industrial states of Michigan, Ohio, Minnesota and Wisconsin.In conservative Indiana, and out on the prairies *of Nebraska and* North Dakota, Bush retains a lead, but even Kansas, so heavily Republican that it is usually left *out of presidential* calculations, is leaning to Clinton

Clinton		Bush	
Clinton leads		**Bush leads**	0
Minnesota	10	**Bush inclined**	
Iowa	7	North Dakota	3
Missouri	11	Nebraska	5
Illinois	22	Indiana	12
Michigan	18		
Ohio	21		
Clinton inclined			
South Dakota	3		
Kansas	6		
Wisconsin	11		
Clinton leads	89	Bush leads	0
Clinton inclined	20	Bush inclined	20

The South

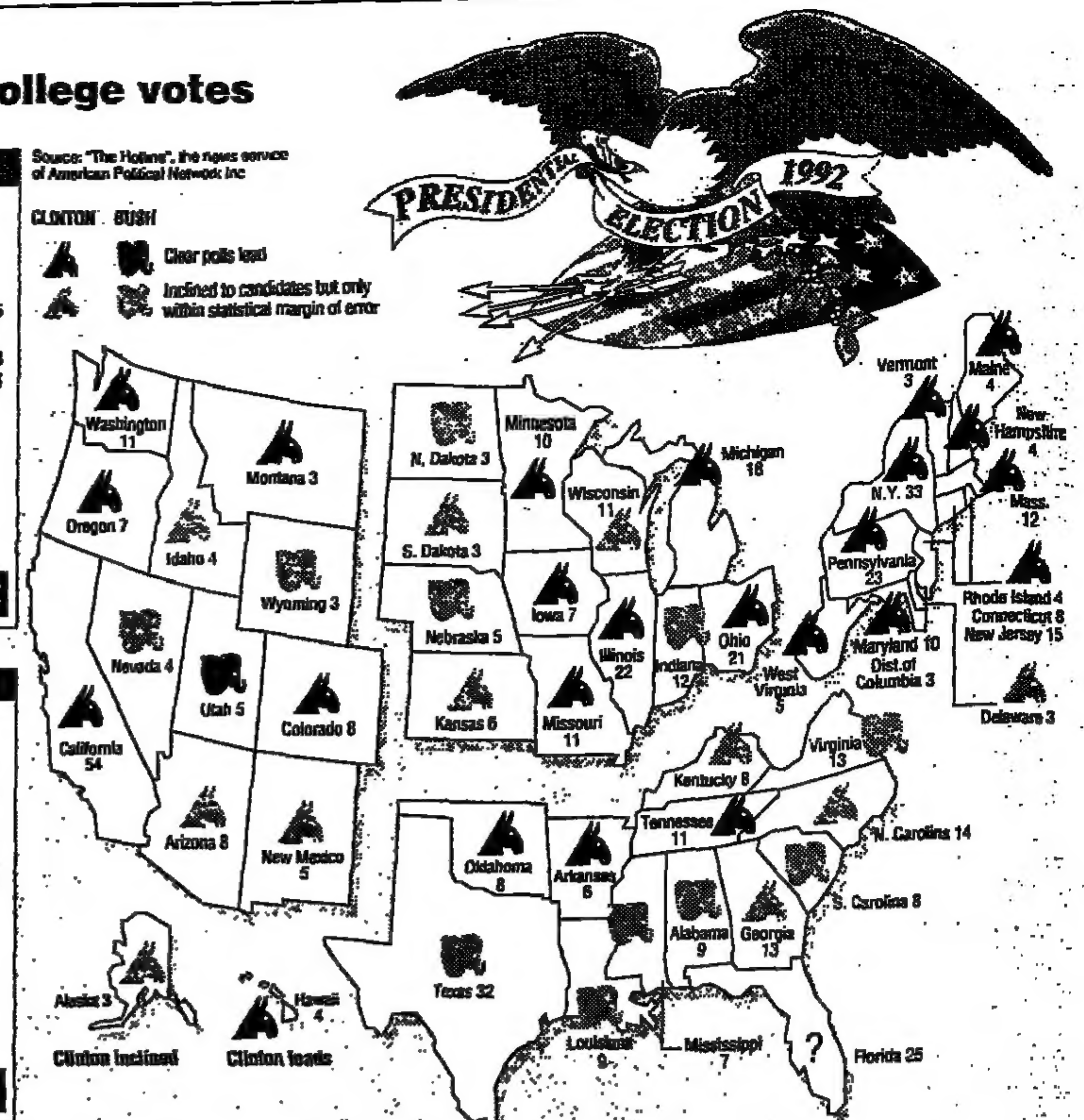
While the South continues to vote Democratic in congressional elections, its presidential votes have been solidly Republican in recent years. But southerners Clinton and Gore stand to win their home states, Arkansas and Tennessee respectively. They also hold leads in Oklahoma, Georgia, Kentucky and even in North Carolina. Bush is fighting to hold the Texas and Florida.

Clinton		Bush	
Clinton leads		**Bush leads**	0
Oklahoma	8	**Bush inclined**	
Arkansas	6	Texas	32
Tennessee	11	*Louisiana*	9
Clinton inclined		Mississippi	7
Kentucky	8	Alabama	9
North Carolina	14	Virginia	13
Georgia	13	South Carolina	8
Florida	25	Florida	25
too close to predict		too close to predict	
Clinton leads	25	Bush leads	0
Clinton inclined	35	Bush inclined	73

The East

Liberal New York and Massachusetts remain firmly in the *Clinton camp, but the* Democratic candidate has also won leads in Delaware, Maine and *New Jersey*, which gave more than 55 per cent of their votes to Bush in 1988.Even New Hampshire, deeply conservative but one of the states hardest hit by the recession, has deserted Bush. Clinton could sweep the entire region.

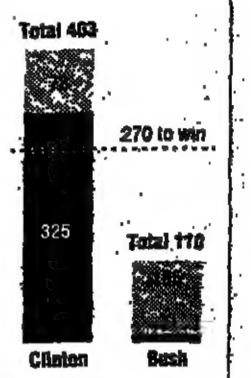
Clinton		Bush	
Clinton leads		**Bush leads**	0
Maine	4	**Bush inclined**	0
Vermont	3		
New Hampshire	4		
Massachusetts	12		
Connecticut	8		
Rhode Island	4		
New York	33		
Pennsylvania	23		
New Jersey	15		
Maryland	10		
West Virginia	5		
Dist. of Columbia	3		
Clinton inclined			
Delaware	3		
Clinton leads	124		
Clinton inclined	3		



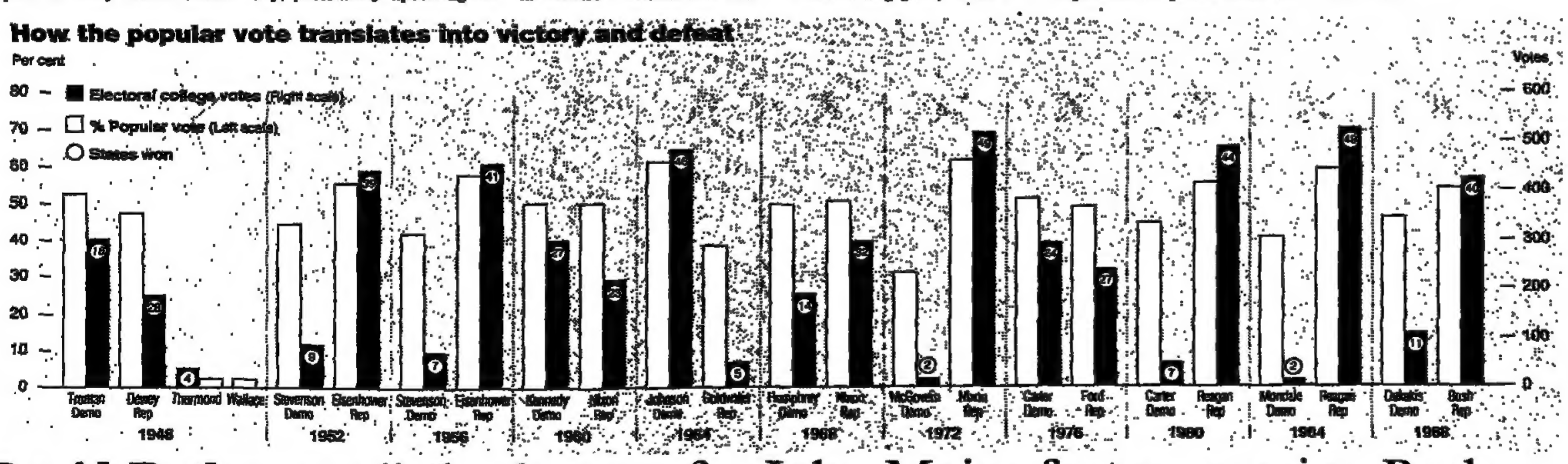
Clinton landslide?

If each state votes on November 3 as these polls suggest they could, Clinton would take at least 37 states plus the District of Columbia, with Bush winning in only 12 or 13 states.This would translate into a landslide in terms of the 538 electoral college votes:

(Excludes Florida as too close to predict)



How the popular vote translates into victory and defeat



Perot defies history books

By Jurek Martin in Washington

ROSS PEROT is not a typical independent, or third-party, presidential candidate.

He springs from no party, cannot be said to have created *his own other than informally*, did not hold a convention and has no defined regional base, other than possibly in Texas – all characteristics of most of those who have previously sought to upset the establishment applecart.

There is always a small multitude of such candidacies on the ballot. Mr Perot is on the ballot in every state, as is Mr Andre Marrou of the Libertarian party, a fixture in almost every state since 1976. Others *have qualified in less than* the full complement.

The most successful this century was that of Theodore Roosevelt, the former Republican president, in 1912. His Progressive, or Bull Moose, party won 27 per cent of the popular vote, behind Woodrow Wilson's just under 42 per cent but ahead of the official Republican candidate, William Taft, with 23 per cent. He carried six states and won 88 electoral college votes, compared with Mr Wilson's 435 and Mr Taft's eight.

In 1924 Robert Lafollette, a former Democrat also under the Progressive banner, pulled in over 16 per cent, but carried only his native Wisconsin.

In 1968, Governor George Wallace of Alabama, also a former Democrat, headed the *American Independent* party, got 13.5 per cent of the vote and carried five southern states with 46 electoral college votes.

In 1948 Strom Thurmond, campaigning as a States Rights Democrat, but later a Republican, won only 2.4 per cent of the popular vote but won four southern states and 39 electors. Henry Wallace, FDR's vice president from 1941-45 and the Progressive candidate *that* year, got only 12,000 fewer votes, but won no state.

In 1980 John Anderson, the former Republican congressman and official Independent, scored 6.6 per cent but won no state.

No third party or independent has taken the presidency, but both Theodore Roosevelt and George Wallace won enough to determine who did, since both had been identified with one of the two main parties.

Though the electoral college margins were wider, Wilson's 41.84 per cent *and Richard Nixon's* 43.42 per cent in 1968 are the lowest popular vote scores for a successful candidate this century. John Anderson hurt Jimmy Carter in 1980, but not enough to bridge the gap with Ronald Reagan.

Most independent candidacies wither as election day approaches. Mr Anderson, for example, once enjoyed 20 per cent-plus ratings in midsummer opinion polls.

But history again is no useful guide in assessing Mr Perot because he started to run, then quit, and only got back in with a month to go.

David Butler sees little chance of a John Major factor rescuing Bush

Poll result expected to prove decisive

By David Butler

THE vagaries of the Electoral College make presidential elections seem more decisive than they really are. Even in the closest of the 12 post-war contests, the winner was a clear 57 *ahead in the* 538 member electoral college.

On average the margin of victory has been 267 – a landslide of more than two to one. This has been in spite of the fact that the average lead in the popular vote has been under 10 per cent *and there have been four* close calls out of 12 - 1948, 1960, 1968 and 1976.

The reason lies in the surprising uniformity of electoral behaviour in the US. In 1988 only Utah and the District of Columbia were more than 10 per cent away from *the national* result. More important, seven of the eight largest states had a vote that was within 3 per cent of the national figure. To adapt the old Maine adage, as one state goes, so go the rest.

However, the fact that the votes in each state are always cast en bloc means that the candidates focus their attention on the large states. The three electoral college votes of Delaware or Wyoming are most unlikely to decide the outcome. But the 54 votes of California or the 32 of Texas could easily settle a close race.

The electoral college does offer the possibility of a perverse result. In 1876 and 1888 the candidate with fewer votes actually won. It would always *be theoretically possible for* a candidate who lost in half the states by large margins and won the rest by a hair's breadth, to win with only 40 per cent of the popular vote. But the law of averages rules that out.

In recent elections any one who *secured 49 per cent of the popular* vote could be assured of a majority in the electoral college - even though there does seem to be a slight Republican bias in the system: 49.5 per cent *of the popular vote would usually* have given victory to their candidate. However the chances of the loser in popular votes emerging as President are very small.

The US is thought to have two-party politics. But in every recent election ten or more presidential candidates have appeared on the ballot, ranging from Liberation to Communist.

This year the *Maharishi's* Natural Law party has joined the gaggle of no-hopers who together will share less than 1 per cent of the vote. However, in the half century before Ross Perot's interventon there have been four third party candidates who have been taken seriously, at least as spoilers. In 1948 Harry Truman faced rebellion both from the Dixiecrat right of his party and from the fellow-travelling left. In 1968 George Wallace offered the most substantial of segregationist challenges and in 1980 John Anderson supplied an honourable centrist alter*native to the inadequacies of the* major party contenders. But all these attempts to buck the system faded as the campaign advanced, bringing the real choice to the voters.

In theory the Perot intervention could decide the 1992 election; in practice this is most improbable. On current opinion polls Perot will not top 10 per cent - 5 per cent is probably nearer the mark. His votes will be drawn from both sides, hurting Bush more in the South (particularly in Texas and Florida) and Clinton more in California and some of the industrial states. However, the net difference in any state is unlikely to exceed 2 or 3 per cent; since it will work both ways, the chances of its being decisive nationally are very low.

Inside the Beltway at least, Republicans are looking to the British analogy. They are imitating the Conservative tax advertisements of last March and they are dreaming of the late *surge that, allegedly, snatched victory for John Major from the jaws of* defeat.

They also hope that the opinion polls may be as systematically erroneous across the US as they proved to be in the UK.

There is little evidence to support such wishful thinking. The veteran George Bush is not not the new arrived John Major. The historic baggage of the Democrats is much lighter than that carried by the *Labour* Party.

Late swings can happen. In 1948 it seems that one did save Harry Truman. In 1980 another gave Ronald Reagan his landslide.

Therefore, with 19 days to go the pundits are keeping their fingers crossed. But at the moment there is nothing in the opinion polls - and certainly nothing in the electoral system - which can offer substantial comfort to the Republicans who want to believe that George Bush can pull off *a John Major*.

Wall Street convinced Clinton will triumph

Patrick Harverson attempts to pick out likely winners and losers if the Democrats are elected

IT may have taken them a long time to come round to the idea of a President Clinton, but Wall Street's economists, analysts and fund managers are now convinced that the Democrat governor from Arkansas will triumph on November 3.

According to a survey published this week in Barron's, the US business newspaper, a remarkable 70 per cent of the investment fund managers it surveyed believe the Democrat would win the presidency next month. There is an equally firm consensus among economists and analysts about the election's outcome.

Now that Wall Street believes Mr Clinton will win, there has been a scramble to identify the financial assets that could benefit most from a Democratic-controlled White House.

On a macro level, economists expect that the economic pendulum will swing from deflation to higher growth and inflation under Mr Clinton, and are warning investors to be ready to make a significant asset-allocation decision: to switch from bonds to stocks.

Mr Steven Resnick, senior investment strategist at Cowen, a New York securities firm, believes strongly that stocks will do better than bonds: "Clinton means more reflation than we would have got with Bush – it will be the turning point in the bull market for bonds."

Few doubt that stocks would outperform bonds in a reflationary climate, especially given the bond market's aversion to any policy that might widen the budget deficit. Most economists on Wall Street mistrust the calculations behind Mr Clinton's formula for halving the deficit over four years – a formula based on increasing spending, cutting middle class taxes, raising taxes on the rich, closing corporate tax loopholes, cutting defence spending and reducing government waste. To bond investors, the formula spells higher interest rates and higher inflation.

To some extent, these fears have already been priced into bonds, which have fallen recently on concerns about Clintonomics. Most observers, however, believe the market would drop further after the election on a Democratic victory, and forecasters talk of long-term bond yields rising from 7.5 per cent levels to well above 8 per cent.

The stock market has already been shedding some fat in anticipation of a Clinton win, based primarily on the instinctive judgment that Republicans are better for equities than Democrats. Political discounting was partly to blame for the 120-point drop in the Dow over six trading days last week.

Apart from this the market appears to be approaching the idea of a Clinton presidency calmly. As with the voters, the mood among many investors is more anti-Bush than pro-Clinton. "There's a high degree of frustration with Bush – he's not exactly beloved in the market," says Mr David Shulman, senior equity strategist at Salomon Brothers.

Despite that frustration Wall Street's underlying sympathies remain with the Republicans. If Mr Bush did manage to come back off the ropes to win there would be a collective sigh of relief at the survival of the status quo.

If Mr Clinton wins, Wall Street assumes that the new administration, probably supported by a Democrat-controlled Congress, will try to accomplish its main goal – kick-starting the stalled economic recovery – in its first 100 days.

That would involve giving early priority to boosting public expenditure. In such an environment, with Mr Clinton proposing spending an extra \$133bn (£77.3bn) over four years on roads, bridges and trains, analysts recommend investing in companies that benefit from infrastructure spending.

Likely beneficiaries of increased spending on public works at federal and state level include big machinery makers such as Caterpillar and Ingersoll Rand, and steel companies. Road builders such as Trinity Industries, Granite Construction and Kasler could also benefit, as could Manitowoc, which makes cranes used in the building of bridges, tunnels and port facilities.

Telecommunications companies would gain if the Democrats go ahead with their plans to establish a "fibre-optic super-highway" across the US to link homes, business, laboratories and classrooms in a national information network. DSC Communications, the country's leading supplier of signalling equipment and the preferred vendor to both local and long distance telecommunications companies, has been widely mentioned by analysts.

Wall Street believes the educational infrastructure should benefit from Mr Clinton's plans to spend \$63bn over four years. Analysts recommendations have included McGraw-Hill and Paramount Communications (owner of Simon & Schuster), two big textbook publishers, and Apple Computer, which dominates the educational computer market.

The sorry state of the nation's health-care system has been a big issue in the campaign, and health-care companies and hospital management companies, such as US Healthcare and Hospital Staffing Services, should benefit from Democratic plans for more comprehensive healthcare provision.

Among retailers, those that service lower- and middle-income shoppers are expected to gain from middle-class tax cuts. Wal-Mart, Kmart, Costco and Woolworths are three such stocks. Conversely, higher taxes on the rich might adversely affect the likes of Tiffany's and Nieman Marcus, which is owned by General Cinema.

Environmental stocks are widely regarded as good buys with Mr Albert Gore, one of the most environmentally-savvy politicians in the US, as vice-president. Groundwater Technology and Handex Environmental Recovery have been singled out, as have natural gas suppliers such as Global Marine and Oceaneering International.

But what about the stocks to avoid if Mr Clinton wins? In the most obvious cases, such as the pharmaceutical companies like Merck, Pfizer and Johnson & Johnson that could suffer from controls on pharmaceutical prices, heavy selling in recent weeks has already taken the sting out of a possible Clinton victory.

Defence stocks, in the light of the Democrat's more aggressive defence cuts plans, have also been discounted, hitting names like Lockheed, Northrop and Rockwell International.

One other stock singled out by many as a Clinton loser is Tyco Toys. Mr Clinton has hinted he may remove the "most-favoured nation" trade status accorded to China if its human rights record is not improved. Tyco is vulnerable because 40 per cent of its products are reported to be made in China.

Republicans may decline to 40 seats in Senate

George Graham attempts to see into the new face of Congress

THE new Congress that will take office in January is already sure to wear a face very different from its predecessor. One member in six will not be standing for re-election on November 3. A handful of House of Representatives members have moved up to run for Senate seats, but most of the departures are caused by retirement or by defeat in primary balloting.

The Republicans' anticipation that this wholesale change would present an opportunity to break the Democrats' domination of Congress is fast evaporating. In the Senate, where 36 of the 100 seats are coming up for election, some Republican organisers had hoped a year ago that they might be able to break the Democrats' 57 to 43 majority.

Today, the Republicans face the ominous prospect of falling as low as 40, a critical level because it would give the Democrats the 60-member majority required to shut off debate through a "clôture" motion, so depriving the Republicans of the ability to block legislation by filibustering.

Democrats are strongly placed to gain two seats, in California and Wisconsin, and have reasonable prospects of ousting Republican incumbents in at least two more states, New York and Oregon. Pollsters give the Republicans only an outside chance of picking up two Democratic seats, in Ohio and North Carolina.

In the House, where members are elected for only two years rather than the six-year Senate term, the Republicans hoped to gain from the 10-yearly redrawing of congressional district boundaries to take account of new census data.

Re-districting alone had been projected to cost the majority Democrats perhaps up to 40 of their total 266 seats. Besides faster population growth in Republican areas, and the likely undoing of some of the more egregious gerrymanders of 1982, new court interpretations of the Voting Rights Act compelled the creation of more districts with predominantly minority populations.

This has resulted in the drawing of some overwhelmingly Democratic districts, but left the Republicans stronger in many others by siphoning off black voters, who remain, for the most part, strongly Democratic. The Democrats are still likely to lose seats, but the Republicans have been weakening fast. Mr Charles Cook, a respected election handicapper, last week forecast a 16-seat gain for the Republicans. That would leave the Democrats in control of the House with 252 seats to 182 for the Republicans, with one Independent.

Congress's reputation with US voters has been unusually low over the last year. Mounting public concern over the huge federal budget deficit has focused unfavourable attention on congressional spending habits. Many legislators, too, became disillusioned and retired. They range from familiar figures like Senator Warren Rudman, co-author of the Gramm-Rudman legislation that tried vainly to keep the budget deficit in check in the 1980s, to promising youngsters like Congressman Dennis Eckart of Ohio.

Voters who for years had split their votes between Republican presidents and Democratic congressmen, and showed every sign of liking the idea of divided government, began to complain about Washington gridlock, a complaint that President George Bush tried to exploit in his re-election campaign.

Mr Bush's pitch does not appear to have worked; indeed, if the gridlock is to be broken, it now appears far more likely to come about by ending Republican control of the White House than by ending Democratic control of Capitol Hill. Many Republican congressional candidates are painfully aware of this, and are busily trying to distance their own candidacies from the top of their party's ticket.

The Washington Post reported this week that only two dozen out of more than 400 Republican congressional candidates had accepted an offer to be filmed with the president for their campaign advertisements.

The Perot factor could lead to an even more radical turnover in Congress

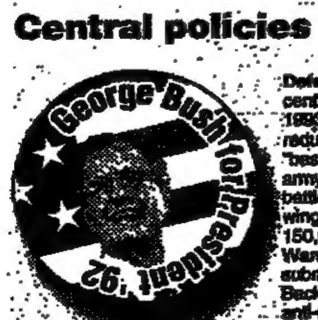
One maverick factor in the congressional elections is the revived popularity of Mr Ross Perot. Although few believe that he still has a realistic chance of winning the presidency, he could bring to the ballot box many who are inclined to vote systematically against the incumbent, of whatever party.

That could lead to an even more radical turnover in Congress's membership.

Whatever happens, the new members are already certain to include a great many more women. The new Senate could boast as many as seven women Senators, more than double the current tally; in the House, the number of women members should rise by a minimum of 12 from the present 29. But new members may not serve as long as their predecessors. Voters in 14 states will see on their ballot papers referendum questions on whether to limit the number of terms a legislator may serve.

Colorado has already introduced term limits, but a ballot measure in Washington state was narrowly defeated last year, thanks in large part to the campaigning of Mr Tom Foley, Speaker of the House and congressman for eastern Washington since 1965. Term limits now seem to be winning support of around 70 per cent in most states where the issue is on the ballot.

Central policies of the Presidential contenders



Defence: Proposes real 4 per cent decline in defence budget 1993-97, with steady reductions in troop levels to "base force" with 12 active army divisions, 12 carrier battle groups and 15.25 fighter wing equivalents. Seeks 150,000 troops in Europe. Wants to kill off Seawolf submarine, Osprey aircraft. Backs development of GPALS anti-missile defences.

Abortion: Would ban abortion except in cases of rape, incest or threat to woman's life. Has repeatedly vetoed bills including federal funding for abortions or abortion counselling.

Environment: Helped enact Clean Air Act but has held up some rules implementing act. Wants more attention paid to economic cost of environmental protection.

Healthcare: Proposes tax credits worth \$1,250 per person to help cover most of those without health insurance. Seeks reforms to workings of insurance market. Encourages health maintenance organisations.

Trade: Seeks to help create domestic jobs by expanding exports. Has negotiated Nafta agreement with Canada and Mexico. Seeks similar free trade agreements in future with other countries in Latin America and eastern Europe.

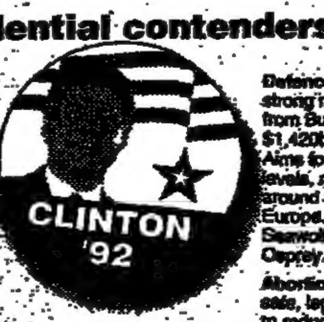
Economy

Offers a continuation of Republican Party strategies of past 12 years. Underlying philosophy is that free markets, low taxes and minimal government regulation provide best prospect of rapid economic growth and higher living standards. Thus promises a new round of tax cuts, to be offset by unspecified cuts in federal spending.

Emphasises the importance of cuts in capital gains taxes as a way of stimulating private investment and favours short-term incentives to revitalise the economy, such as tax credits for first-time home buyers and targeted investment subsidies.

Advocates an amendment to the Constitution mandating a balanced federal budget.

Also seeks to strengthen the economy through market-oriented social reforms, such as the promotion of greater competition to control health care costs and raise educational standards and the creation of tax-free "enterprise zones" to regenerate inner cities. However, the ideas are mostly a late response to Democratic Party proposals.



Defence: Seeks to maintain strong military, cutting \$60bn from Bush's five-year \$1,420bn defence budget. Aims for slightly lower force levels, mainly by cutting to around 100,000 troops in Europe. Backs completion of Seawolf and development of Osprey.

Abortion: Supports right to safe, legal abortion, but wants to reduce number of abortions. "Children should not have children."

Environment: Favours limiting carbon dioxide emissions to 1990 levels by year 2000 to fight global warming. Supports higher fuel efficiency standards for cars, more protection for wetlands, old growth forests. Tones down environmentalist message of his running mate Al Gore.

Healthcare: Plans national health spending caps and universal coverage. Employers would either provide private insurance or pay into state-run scheme. Every American guaranteed a basic health benefits package.

Trade: Wants to "move aggressively to open foreign markets," calling for stronger "Super 301" trade bill. Endorses Nafta, but wants additional job and environmental protections.

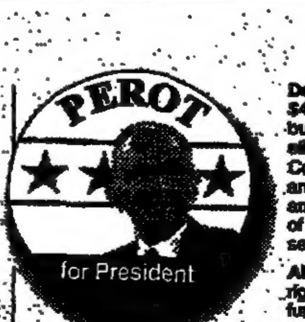
Economy

Advocates a change of economic course involving a greater commitment to investment in people, a more active role for government and a fairer tax system.

Supports free enterprise but argues that government can do more to create a favourable climate for growth. Proposes an additional \$200bn of federal investment in education, training and infrastructure over the next four years, a more active industrial policy to faciliate the switch from defence to civilian production, and bold reforms of the health care and welfare systems.

Advocates modest tax cuts for middle-income families as a way of compensating for tax cuts that favoured the rich in the 1980s. Would pay for these reforms by raising taxes on the top 2 per cent of earners, by clamping down on tax avoidance by foreign companies and by cutting inessential federal spending. Has pledged to halve budget deficit by 1996.

Critics say the plan lacks fiscal realism and envisages too big a role for government. Higher taxes on top earners and foreign companies are unlikely to yield as much revenue as projected, while social reforms – such as guaranteed health insurance for all – may prove more costly than expected.



Defence: Wants to cut at least \$40bn from Bush defence budget over next five years, eliminating "relics from the Cold War" like the B2 bomber and Seawolf. Wants Europe and Asia to pay \$100bn more of the cost of collective security.

Abortion: Supports woman's right to choose. Backs federal funding of abortions for poor women, but also for education and counselling to reduce unwanted pregnancies.

Environment: Favours economic incentives rather than regulations to achieve environmental goals. Wants to end subsidies for inefficient and environmentally destructive mining and logging activities. Would raise petrol tax by 10 cents a year for next five years.

Healthcare: Wants short term cost containment and preventive medicine programme. Seeks national health board to oversee long-term reform, including universal coverage.

Trade: Wants to end distinction between the "high" politics of defence and diplomacy and the "low" politics of the economy and jobs. Would put "experienced, hard-nosed negotiators from outside politics" as trade negotiators.

Economy

Plans assumes big federal deficits are the root cause of US economic problems and proposes, unlike other candidates, swingeing cuts in spending and increases in taxes – enough, he hopes, to eliminate the deficit by 1998. Theory is that tough action to reduce the deficit would raise the national savings rate, allow more capital investment and thus boost productivity growth and living standards.

Asks all sections of society to make sacrifices. The rich would have to pay higher rates of income tax and face a cap on mortgage interest deductions. Working families would face sharp increases in petrol and tobacco taxes. Many elderly people would have to pay more for federal health care and face higher taxes on pensions. Employer health schemes would be taxed more.

Would increase spending on a few budget items, including research and development and investment incentives. Overall budget savings estimated at about \$750bn over five years.

Many economists have applauded the tough measures to regain control of the federal budget, although some fear that deficit reduction at this speed would risk plunging the economy into a slump.

A party marches on its money

By George Graham in Washington

THERE is one election-year battle that the Republican party has usually won by this stage in the campaign: the battle to raise money.

Yet the comfortable flow of funds to the incumbent, President George Bush, has slowed to a trickle in recent months and the Republicans find themselves in the unaccustomed position of having less money in their campaign chest than do the Democrats.

In July-September, the Democrats raised \$43.5m in campaign contributions, according to the public interest watchdog Common Cause, compared with only \$26.7m for the Republicans.

The presidential candidates of the two main parties receive \$55m each from the federal government, in return for accepting limits on their campaign spending. On top of this, each party can raise \$10m in personal contributions of up to \$20,000 apiece.

The Democrats had already raised their \$10m for Governor Bill Clinton by the end of August; the Republicans had only raised \$2.4m by mid-September.

However, parties can get around these limits by the use of "soft" money, which is not used directly for the candidate, but for more general ends such as voter registration drives and party advertising.

Soft money can include major corporate donations. Tobacco companies such as RJR Nabisco, which has hedged its bets with big gifts to both the Republicans and the Democrats, are big donors.

One additional effect of the Republicans' cash shortfall is that, with less than three weeks to go before the election, Mr Bush still has to devote a substantial portion of his time to fund-raising events, whereas Mr Clinton can concentrate solely on campaigning.

Mr Ross Perot, the Texas billionaire running as an independent candidate, will receive no federal money, so is not bound by any spending limit.

He announced his withdrawal from the election in July but spent about \$7m, almost entirely from his personal fortune, keeping his candidacy alive before deciding to relaunch his campaign at the end of September.

Since then, he has spent heavily on national television advertising.

Efforts to reform Congressional campaign financing laws failed this year when Mr Bush vetoed a bill backed by the Democrats, which would have introduced a system matching, in some respects, that used for presidential campaigns, where candidates would receive partial federal funding in exchange for voluntary spending limits.

The average cost of a victorious House of Representatives campaign rose to \$400,000 in 1990, and a Senate seat cost nearly ten times as much. Reports to the Federal Election Commission so far this year suggest candidates are spending much more to get themselves elected on November 3.

The idea of a cap on campaign spending meets much voter support, but any limit can only be voluntary because the Supreme Court has ruled that mandatory limits would infringe a candidate's constitutional right to free speech.

UK MINE CLOSURES

Customer's imports set to soar

By David Lascelles, Resources Editor

ANGLO United, British Coal's second largest customer after the electricity generators, will have to increase its coal imports from 100,000 tonnes a year to close to 1m tonnes because of the pit closures.

Mr David McErlain, the chairman, said yesterday that executives from his company would be visiting Australia and South Africa shortly to discuss purchases.

Anglo United owns the Coalite smokeless fuel company and also distributes 3m tonnes of coal a year. But a large number of the UK mines which supply the company are on the shutdown list. British Coal will try to meet its needs, but there will be a growing shortfall.

Mr McErlain also said that Anglo United had withdrawn as a possible bidder for British Coal because the severity of the cutbacks had left the operation too small to be of interest.

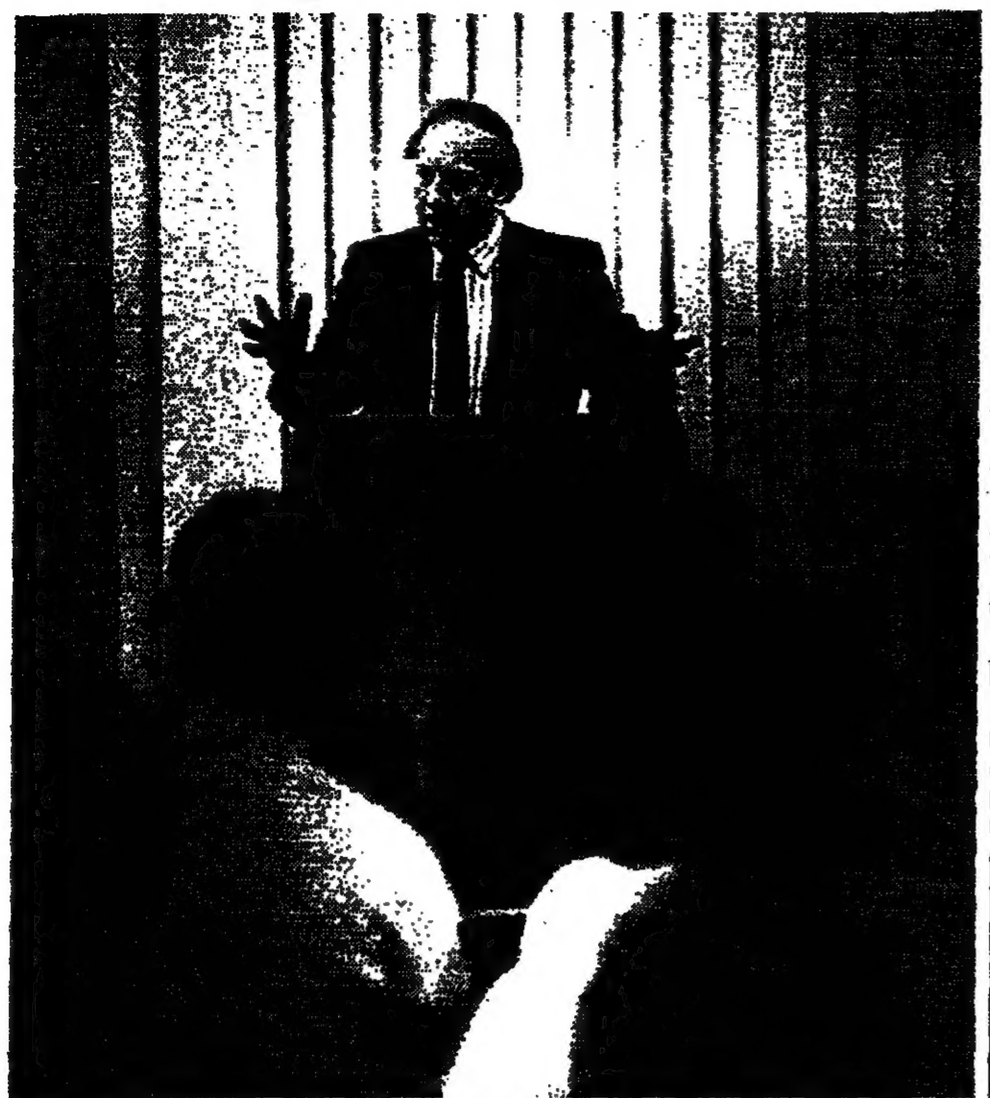
"Eighteen months ago we were looking at a business with 30 mines selling 50m tonnes to the generators. Now it is only 20 mines. It's suddenly a small industry and getting smaller."

Mr McErlain blamed the growth of gas-fired power generation for the shrinkage of coal, and urged that Prof. Stephen Littlechild, the electricity regulator, investigate it.

Mr Malcolm Edwards, the former commercial director of British Coal who left the company after disagreements over the cuts, is to lead a consortium which will attempt to lease four pits due for closure in South Yorkshire: Markham Main, Hatfield, Bentley and Rossington.

Mr Edwards told BBC Leeds: "Here we are dealing with mines, it has been said over and over again, which are among the best in Europe." He said he had held talks with Brian Nichols Associates of New South Wales who would operate the mines.

Mr Crispian Hotson, the chief executive of Ryan Group, the UK's largest private coal mining company, said he had put a proposal to Mr Eggar to split British Coal up into five competing companies.



Action call: Arthur Scargill, president of the National Union of Mineworkers, calling on miners yesterday to demonstrate at pits due to be closed. Speaking at a union conference in Sheffield, Mr Scargill said a strike ballot would be held to protest at the "butchery" of the industry.

Government pledges to press on

THE government will press ahead with plans to privatise British Coal despite the mounting furore over the decision to shut down over half its pits, writes David Lascelles.

Mr Tim Eggar, energy minister, said he hoped to present legislation to parliament in late November, or by Christmas at the latest.

He said it would be "a long road" to privatisation, and he did not expect details of the sale to be finalised until next July at the earliest.

Mr Eggar, addressing an Institute of Energy conference, said four issues would be taken into account:

- Safety and health of mineworkers must be paramount.
- Reduced energy costs resulting from the cuts must be passed to energy consumers by the electricity generators.
- Mining and marketing of coal should be kept separate from the leasing and licensing of exploration and production. A new licensing authority would be set up which had no conflict of interest in awarding licences.
- The pensions and concessionary fuel entitlements of past and present employees must be safeguarded.

Mr Eggar repeated a commitment to give management and staff the opportunity to have a stake in the business, though he stressed that no decisions had yet been taken on whether there should be a trade sale, an issue of shares or a management/employee buy-out.

Currency turmoil erodes optimism

By Michael Cassell, Business Correspondent

CONFIDENCE within Europe's business community has taken a tumble in the wake of the recent turmoil in the currency markets, according to a survey conducted by the Confederation of British Industry (CBI).

The survey, reflecting the views of 2,500 companies in five European capitals, shows business optimism has fallen in London, Brussels, Paris and Rome. Activity in the retailing, hotels, tourism and construction markets has continued to fall.

According to the CBI, business optimism among manufacturers in the four cities is also down. All are looking to further reduce their manufacturing labour force over the next six months. Madrid is the only centre expecting a more encouraging outlook.

The survey suggests, however, that manufacturing output and investment levels in London may rise marginally, while production elsewhere is expected to decline.

In the banking and finance sector, optimism was generally lower in the face of the continuing uncertainty surrounding the currency and equity markets. Construction appears to be the universal black spot, with none of the cities suggesting improvement was likely. Optimism and investment programmes remain at low levels.

Mr Stephen Hayklan, from the London region of the CBI, said the survey was the first pan-European survey to have been published since Black Wednesday. "It shows that London is not alone in suffering a serious economic recession," he said.

The retail sector appears universally gloomy, with consumer confidence low and staffing levels falling. In London, retailers claim they continue to be hit by consumer preference for paying off debt while the downturn in the French economy is now hitting retail spending in Paris. A similar situation is reported by the retail sector in Brussels and Madrid.

Canary Wharf sale faces delay

By Robert Peston

CANARY Wharf, the east London office complex, may not be sold to investors for two years, whether or not the Jubilee underground line extension to Docklands is built.

That was the warning given yesterday by Mr Stephen Adamson, a partner in accountancy firm Ernst & Young who in May was appointed as one of the joint administrators of Canary Wharf under UK insolvency procedures.

No decision, however, on whether to build the £1.6bn project was taken yesterday at a meeting of the government's special Docklands committee, under the Leader of the House of Lords, Lord Wakeham.

Some government departments are arguing strongly that the project should go ahead, although the Treasury still needs to be convinced that it should be built.

Mr Adamson said: "If the Jubilee Line is built, we could restructure the project [involving the sale of all or part of it] within two years".

If the government decides against building the line, as officials say is likely, Mr Adamson cannot say when a sale will take place.

He also said that Canary Wharf's 11 commercial banks, who have lent £576m to the project, are unlikely to receive any repayments until 1998, unless an investor can be found to inject new funds into the project.

"The banks would start to get repaid in 1998 from funds generated by letting the estate", he said. "Repayments would continue till 2,006."

Whether or not the Jubilee Line is built, the administrators will move rapidly to reorganise Canary Wharf's corporate structure. A new company will be set up, with the administrators as its shareholders, which would take control of assets.

The reason for doing this would be to give confidence to potential tenants that they are negotiating with a well-capitalised company. Banks would inject funds into this new company to ensure that it has sufficient resources to maintain services at Canary Wharf and provide incentives to potential tenants.

Canary Wharf: administrators have warned of problems

If the Jubilee Line is built, the banks have agreed to provide £30m of funds to meet these needs over the next three years. Overall, the banks have offered £395m towards the £1.6bn Jubilee costs.

Mr Adamson also disclosed that the administrators are in dispute with Chemical Bank, the big American bank, about the its right to cancel its agreement to rent 225,000 square feet of space at Canary Wharf.

Lloyd's syndicate failed to fully understand reinsurance market

By Richard Lapper

THE MANAGERS of the loss making Feltrim syndicates "did not understand the true nature" of the reinsurance markets in which they were active, a Lloyd's loss review has concluded.

The 850 page report, prepared by a committee chaired by Sir Patrick Neill QC, was sent to Names affected by the losses yesterday. It has taken over a year to prepare.

Syndicates 540/542 and 847 specialised in London market excess of loss (LMX) or spiral catastrophe reinsurance, in which syndicates at Lloyd's of London and insurance companies reinsured each other's exposure to high-level catastrophe loss.

Between 1987 and 1990 the syndicates were hit by a sequence of catastrophes which produced claims "on a scale which was without precedent in insurance history," says the report.

Reviews covering the losses of LMX syndicates managed by Gooda Walker, Rose Thomson Young and Devonshire have been published within the past two months.

A Name trading on syndicates 540/542 between 1987 and 1989 would have faced a loss of over £73,700, for each £10,000 traded.

Mr Colin Hook, the chairman of Feltrim Names Association, said the report "was a savage indictment of the Lloyd's system."

He said the report would assist the Names in their campaign for compensation.

The report says that Feltrim's managers and underwriters believed that the possibility of huge loss was remote and did not appreciate the scale of loss to which they were exposed.

Their reinsurance was inadequate. In 1987, for example, The two syndicates shared a reinsurance programme for the 1987 account, partially because of cost constraints.

Syndicate's 540/42 reinsurance programmes was designed to protect dollar exposures, but the big losses of 1987 and 1988 – the UK hurricane of October 1987 and the explosion on the Piper Alpha oil rig in July 1988 – produced claims that were paid in sterling.

Mr Patrick Fagan, the underwriter of 540/542 told the Neill committee that the "whole ethos of the syndicates was to protect against the big US windstorm."

NEWS: UK

BR, London Transport fares rise by up to 8.5%

By Richard Tomkins, Transport Correspondent

BRITISH RAIL and London Transport triggered angry protests yesterday by announcing government-approved fare rises averaging 7.5 per cent on BR and 8.5 per cent on LT, more than double the rate of inflation.

The increases, from January 3, come as private sector businesses are having to moderate or forego price rises in an attempt to keep business in the face of the recession. BR and LT are able to impose big increases because many of their passengers, particularly commuters in London and the south-east, have no alternative means of transport.

As in previous years, this captive market will bear the brunt of the fare increases. Network SouthEast commuters will pay up to 9.5 per cent more for their season tickets, while holders of LT Travelcard season tickets will pay up to 10 per cent more.

Other rail travellers will face lower-than-average increases because BR is trying to stem the downturn in leisure travel.

The Central Transport Consultative Committee, the statutory rail passengers' watchdog, accused BR of exploiting its monopoly.

Major-General Lennox Napier, the committee chairman, said: "Both InterCity and Network SouthEast failed to meet some of their key quality targets in 1991-92, so the decision to raise season ticket rates by an average of twice the rate of inflation is unreasonable."

Mr John Prescott, Labour transport spokesman, said: "Britain's railways are now the most expensive and least invested, with reducing quality, of any developed European railway system."

Mr John MacGregor, transport secretary, said: "Both BR and London Underground are in the middle of enormous investment programmes. Much of that money comes from the taxpayer, but it is only right that passengers should make a contribution."

Mercedes executive says sterling undervalued as company increases component orders

German carmakers raise UK spending

By John Griffiths

STERLING is under-valued and the British economy underrated according to Mercedes-Benz, the German manufacturer of luxury cars. The company nearly tripled its purchases of UK-produced motor components last year and expects to buy more during the 1990s.

Mercedes' German rival BMW and the Volkswagen/Audi group – now embracing SEAT of Spain and Skoda of Czechoslovakia – are also expanding their purchasing of UK-made components and say they, too, expect further growth.

All three groups say this growth would take place even without the devaluation of sterling following its withdrawal from the European exchange rate mechanism.

Any beneficial effects from the devaluation are, in any case, unlikely to show up for several years because of the long lead times involved in granting supplier contracts.

What amounts to a minor vote of confidence by the German vehicle industry in the UK components sector comes during a week in which Lucas Industries, one of the UK's biggest aerospace and motor components groups, has announced 4,000 job losses and sharply reduced profits.

But in spite of poor UK car sales and weakening Continental car markets, Lucas' motor components profits were virtually unchanged from 1990.

Mercedes-Benz nearly tripled its purchases of UK-produced components last year, to £72m from an annual average of around £25m. Purchases outside the automotive sector by Mercedes' sister companies, AEG and Deutsche Aerospace, lifted last year's total to around £310m.

This increase pre-dates sterling's devaluation against the D-mark and is due to significant quality and efficiency improvements by the UK components industry, according to Mr Hans Tauscher, managing director of Mercedes-Benz (UK).

"British industry is showing itself well able to deliver the goods at competitive prices," he said. Mercedes, BMW and Volkswagen has each set up full-time purchasing offices in the UK. Volkswagen/Audi, Europe's biggest vehicle maker, also expects increased component orders.

Mr Werner Svetlik, VW management board director with responsibility for purchasing, has told UK component companies that they have the opportunity to increase sharply the £86m worth of parts they supplied to the German carmaker last year.

BMW, the most conservative of the German carmakers in terms of UK component purchases, is increasing its its spend, albeit from a very small base.

From DM25m in 1988 it is increasing to an expected DM85m this year, with a forecast further rise to DM120m next year.

Lucas Industries is one of the beneficiaries, having just won some of the engine fuel injector business BMW once reserved exclusively for Robert Bosch, the German engineering group.

Mercedes-Benz, like other German carmakers, acknowledges it is benefiting from the UK industry's growing ties with Nissan, Toyota and Honda plants in the UK.

Meeting Japanese cost and quality criteria is understood to have increased the UK competitiveness.

BT fears threat of cable competitors

By Raymond Snoddy

BRITISH Telecommunications (BT), the national telephone and communications network, is seriously concerned about growing competition from cable television companies offering telephone services.

Mr Arthur Thompson, a senior BT marketing manager, has warned staff that up to £500m could be lost in residential business by 1996 if BT does not respond effectively to the competitive threat.

The warning was issued in last month's issue of Prospect, an internal magazine for BT marketing staff.

Mr Thompson argues that cable franchises are available to 14m BT customers and "will put at risk over 60 per cent of our residential revenue".

This, he claimed, constituted an even bigger threat to BT's residential business than that posed by Mercury Communication, the Cable and Wireless subsidiary.

The number of cable telephone customers is modest but the upward trend is dramatic.

Official figures from the Independent Television Commission show that from the beginning of January 1991 the number of cable lines has grown from 2,224 to 47,902 on July 1 this year.

Many of the large cable investors such as Nynex and US West are North American telephone companies.

When these overseas companies build cable television networks they include the capacity to run telephone lines to households.

Customers are being offered discounts of up to 15 per cent on cable telephone services, according to BT.

Ms Nancy Dunsire, a marketing specialist who is co-ordinating BT's response to cable services believes there is potential for substantial loss of income is the networks are offered to business customers.

Small and medium-sized companies were being wooed with promised savings of up to 18 per cent on their phone bills, she said.

"The cable companies are highly professional, both in terms of their network capabilities and their marketing and sales operations.

"We can certainly beat them, but only if all parts of BT work together," Mr Thompson said.

Recession hits Scottish manufacturers

THE recession has finally caught up with Scotland, the Fraser of Allander Institute, Scotland's principal economic research organisation said yesterday, writes James Buxton.

The latest quarterly survey of Scottish business showed almost uniformly bad indicators of both economic performance and business confidence, the institute said.

The survey, carried out by Scotland's chambers of commerce for the third quarter of 1992, revealed that manufacturing companies were now experiencing falls in sales and orders compared with a modest increase in the second quarter.

Manufacturers were running down stocks and a majority said they were scaling down investment in new plant and machinery, compared with a small majority in the second quarter which increasing their investment.

In the construction industry orders were declining at an even faster rate than in the previous quarter.

The report said hopes of an upturn had not been fulfilled and expectations for the fourth quarter were for a performance little better than that for the third quarter.

Ian Lang, Scottish secretary (far right), arrives in Downing Street yesterday with his predecessor Malcolm Rifkind, as news emerged of economic pessimism north of the border

Britain in brief

Car output rises despite poor sales

The sharp contrast between the severely depressed UK new car market and the British car industry's production levels has been emphasised by statistics showing that car output rose by 14.4 per cent in September compared with the same month a year ago.

The September output figures, which included a 25.39 per cent jump in production for export, lifted total car production for the first nine months of this year to 962,155 – 1. 88 per cent ahead of the 944,382 produced in the same period of last year.

The statistics, published jointly by the Society of Motor Manufacturers and Traders and the Central Statistical Office, showed total car production in September at 103,738 compared with 90,613 in the same month a year ago. Production for the UK market, at 42,932; was virtually unchanged from the year-ago level of 42,120.

Holiday demand likely to fall

The number of people taking an overseas holiday could fall next year, despite an encouraging start to summer 1993 bookings, according to a travel industry survey.

The survey, conducted for Lunn Poly, the biggest UK travel agency, revealed that 32 per cent of those questioned planned to take a summer holiday abroad next year. In last year's survey, 44 per cent said they planned to take a foreign holiday in summer 1992. In the event, only 22 per cent did so.

Gloom grows in north-west

The third regional economic survey this week has confirmed a sharp downturn in sales, markets and confidence among businesses in north-west England.

Liverpool chamber of commerce, which surveys Merseyside, west Cheshire and North Wales on a quarterly basis, reported a reversal of all previously upward trends in home and export deliveries and orders between July and the end of September.

Water group defies watchdog

North West Water has become the first of the water and sewerage companies to challenge the request of Ofwat, the water industry regulator, to hold back next spring's price rises.

North West said it has issued a counter notice to Ofwat's formal notice two weeks ago, saying that if it held back prices as much as Ofwat had asked, it would not be able to afford to clean up the Mersey as required by new environmental rules.

Venezuelan order for GPT

GPT, Britain's largest telecommunications equipment supplier, has won a $22.6m (£12.5m) order to supply payphones using smart card technology to CANTV, the Venezuelan national telephone company, privatised last year. The GPT Payphone Systems' factory at Chorley in Lancashire has already supplied the first consignment, the final shipment is due next month.

Sales decline

Sales by builders merchants have continued to fall throughout the summer as the recession in the construction industry deepened. The Builders Merchants Federation said sales fell by 2 per cent during the three months to the end of August compared with the corresponding period last year.

Radio plan

The BBC Governors have decided to go ahead with the launch of a 24-hour radio news service on long wave in 1994. A planning date of April 5 has been set.

THE PROPERTY MARKET

A profession at the crossroads

Vanessa Houlder reports on radical changes which look set to overhaul the UK's conservative surveying sector

A quiet revolution is under way in the UK's chartered surveying sector. The growing pressures on the property industry have plunged this most traditional of professions into a unprecedented period of *soul-searching and restructuring.*

The forces at work were illustrated by two events yesterday. First, the announcement of a merger between Clive Lewis & Partners and Edward Erdman to create one of the UK's top seven property advisers.

The other was an extraordinary general meeting at the Royal Institution of Chartered Surveyors (RICS), the profession's ruling body, which agreed proposals to allow *chartered surveying firms to* appoint partners from outside the profession. At present only firms in which all partners or directors hold *RICS'* qualifications may call themselves chartered surveyors.

This radical proposal was designed to allow chartered surveying firms to improve their management and services, by permiting up to a quarter of their partners or directors to be drawn from other professions such as accountancy architecture, economics and planning. The proposal would also halt the decline of the term "chartered *surveyor", since a greater number* of the large practices which already have non-surveyor partners would be allowed to use the name.

Neither of yesterday's events were isolated incidents. The creation of Erdman Lewis International from the merger of Edward Erdman and Clive Lewis is just the latest in a series of recent tie-ups. de Groot Collis, Vigers, Baker Harris Saunders and Richard Ellis have found partners in Chesterton, Grimley JR Eve, *Herring Son* & Daw and Hepper Robinson respectively: Debenham Tewson & Chinnocks and Bernard Thorpe are the latest to announce merger talks, which if it goes ahead would create the UK's largest surveying firm.

Yesterday's vote was the latest in a series of radical structural reforms

Similarly, yesterday's vote on RICS' rules was the latest in a series of structural reforms in which the body has attempted to become more responsive to the needs of its members and the industry.

Those who argue that change is *inevitable say that the surveying* sector is merely following the path of other professions. In the 1980s, chartered accountancy firms opened up their partnerships to non-accountants in much the same way as the RICS initiative.

Mr Clive Lewis, who founded Clive Lewis & Partners 30 years ago, is convinced that the surveying industry – like accountancy following the spate of mergers in that sector in recent years – will become dominated by a few broadly based, large, international firms.

Mr Lewis predicts that the pace of mergers is accelerating. The top 24 firms will be reduced to 16 within a year and 10 in three years.

Some mergers will be a partnership of equals, designed to give the combined entity a better spread of *clients and markets. More, however,* will stem from a financially distressed firm's bid for survival.

Surveying the future: left, Christopher Jonas, president of RICS, and Clive Lewis, whose firm has merged with Edward Erdman

Mr Lewis says he was approached by 14 firms over the past six months seeking a merger. "Most of the people who are knocking on the door have sizeable overdrafts, decreasing fee income and are staring down the end of a barrel."

The spate of mergers and the reform of RICS are rooted in the recession, the most severe in the property industry for more than 50 years. Surveying firms realise that they must either offer a fuller, better service to clients, or cut their overheads and become a niche business serving a specialist market.

Likewise, the depressed state of the industry has given RICS the authority it needs to ensure its radical proposals are accepted by its members. In the past winning the support of members has not been easy. The RICS leadership was, for example, badly bruised in 1989 when a majority of members voted against its recommendation to merge with the ISVA, a rival professional body.

Once again, some firms view the current upheavals as a self-serving exercise by the big London practices. *Critics believe the relaxation* of rules on the 'chartered' designation will dilute a respected title, earned after years of training, which differentiates surveyors from unqualified rivals.

But the argument that "if it ain't broke, don't fix it" that prevailed in more prosperous times no longer applies. When Mr Christopher Jonas, this year's president of RICS, recently made his presidential address, he called for the profession to "look hard into some of the dark corners which past boom conditions have allowed us to ignore".

The surveying industry has to acknowledge that its problems do not just stem from the recession. Deeper flaws in the industry were highlighted in a report entitled "Market Requirements of the Profession", commissioned by RICS and published last year. The report suggested that the industry had to become better organised and more responsive to the market.

RICS argues that its new structure, which has resulted in a shift of decision-making to "skills" and "markets" panels, will help address these complaints. But some tough questions remain. Are the tasks of surveyors too wide-ranging, diverse and fragmented to be embraced by a single profession? What value, for instance, does a surveying qualification bring to the residential property market?

"We must consider whether we can sustain the concept of a single profession over the longer haul," says Mr Jonas. "It will not be good enough for us to find a fudged solution now and leave our successors with the continuing doubts we have inherited."

Already, it is clear that the next *generation of surveyors will face* daunting hurdles. One of the foremost is the challenge beyond its borders. Property is increasingly traded across barriers. "It will not be sufficient for us to continue to operate exclusively on a domestic basis . . . over time we shall just end up a minority specialist group on *the world stage,"* says Mr Jonas.

Mr Jonas's sombre and thoughtful assessment should not disguise several notable achievements in recent years. The industry has been energetic in its establishment of international networks, for example. While some firms have failed, several have established enviable reputations in foreign markets.

While surveyors accept many of the criticisms heaped on their profession, there is also a sense of frustration that their achievements are not better acknowledged. "I think it is time the property profession started to fight back. We have been hiding our light under the bushel," says Mr Lewis, who as vice-president of RICS will succeed Mr Jonas next year.

In any event, there can be no doubt that the pressures on the profession are intensifying. Only if it takes advantage of the downturn to question established orthodoxies can it emerge from the slump in a more competitive state. The challenges and opportunities are immense, according to Mr Jonas. "The profession is at a crossroads," he says.

CAPITAL GROWTH (%)	Retail	Office	Industrial	All Properties
Year to Aug 92	-0.3	-13.4	-4.2	-6.2
Quarter to Aug 92	-0.7	-4.1	-2.8	-2.4
Month of Aug 92	-0.5	-1.5	-1.0	-1.0

Source: Investment Property Databank

Roger Young of the British Institute of Management suggests a new approach to top executives' salaries

Consistency pays best dividends

The debate on top people's salaries in Britain has reached such a pitch this year that there is an outcry every time a company reveals a sharp rise in the salary of its chairman or chief executive.

At present, discussion is focusing on the disparity between the basic salary or performance bonuses of several high flyers and their company's short-term performance.

Instead of each rise being condemned out of hand, the debate should now broaden to include how total remuneration for all managers should be defined, established, maintained and controlled. The goal should be the use of professional processes which are transparent and systematic, right through companies – including the top.

However irresponsible the ballooning salaries of some high flyers, we must not get carried away. Such people, although very visible and with large, well-known enterprises at their command, are relatively few in number.

A recent British Institute of Management survey of both managers' and directors' salaries, showed that the increases received by the directors of small- and medium-sized organisations were far more restrained than those of directors of large companies with substantial turnovers.

In fact, the percentage increases of the more lowly-paid directors were below those of employees generally. They led by example as they flew over the choppy economic waters in which their corporate rivals were sinking. In some cases their reductions in remuneration were the surplus ballast ditched to keep the company afloat.

So what is remuneration, as opposed just to salaries? Pro Ned, the organisation which promotes the role of non-executive directors, defines the elements of the remuneration package as: basic salary, a performance-related element, profit-sharing schemes, share options and other benefits.

Pension entitlements and the wording of any service contract are the "off-balance sheet" equivalents that I believe should be included. Too often, these are the more costly elements that only come to light, if at all, when the remuneration incentive package fails to achieve the expected results and the chief executive leaves amicably to pursue other interests.

How should top executives' remuneration be established? The answer is simple. By the same process and with the same care as any other salary in the same company.

If this principle were applied throughout Britain, two significant changes would occur. First, if the same high level of detailed consideration were given to the pay and conditions of the workforce as is currently applied to top executives' financial rewards, personnel practices would improve significantly in many companies.

Second, throughout the workforce, a far greater level of satisfaction and improved output would be achieved.

Employees would understand the process of evaluation, be correctly counselled, appraised and take a greater interest in the progress of the company. If good management practices are used, there should be little difference in the application of the standard corporate principles to the principals.

There are many well-established and widely-used systems offering help in evaluating the breadth and depth of a position. Extending their principles to directors' remuneration should prove no problem to those familiar with their use.

The beauty of such systems is that they establish a framework. If those at the top are included within the same framework as those under their control, it means that all are tied to the same industry conditions and constraints in times of austerity. Where current debate has been unhelpful is in the assumption that directors are an industry group unto themselves and, therefore, need to be compared across the piste.

What is different at the very top of the management hierarchy is the need for referees. In the parlance of academia, there is a requirement for accreditors and verifiers to maintain, respectively, the application of standards and also their continuing credibility.

So who should take on the mantle of accrediting the application of the remuneration process? Quite clearly, in the case of the chief executive's salary and that of any other executive on the main board, a remuneration committee of independent directors is the appropriate body – providing, of course, that the members are truly independent.

Pro Ned not only produces guides and guidance but also offers a service to companies both public and private to find independent non-executive director candidates.

A candidate chosen from a Pro Ned assembled list, matching criteria selected by the company, should assuage any criticism of back-scratching from suspicious shareholders or others.

And who fulfils the role of verifying the continued credibility of the remuneration process? On this, we have yet to see the final deliberations of the Cadbury Committee on the financial aspects of corporate governance. My suggestion is that the first cautious step in this direction might be taken by the stock exchange.

If, to one of their many listing requirements, was added: "that a statement on the basis for establishing the remuneration of the executive members of the board be included in the annual report and accounts", then shareholders at the annual general meeting would be entitled to ask questions on the subject without being ruled out of order by an obstructive chairman.

To suggest that a similar statement should be incorporated in the Companies Act before first piloting the idea might be precipitate.

If institutional shareholders backed the Stock Exchange route and offered advice on the amount of detail and how far companies needed to travel to comply, then this initiative might save the need for politically-inspired legislation.

The author is the Director General of the British Institute of Management

How rises in earnings compared

(January 1981 = 100)

Year	All employees	Non-manual	Directors	Managers	All
1981	100	100	100	100	100
1988	175	180.8	173.8	179	178.4
1989	191.4	199.4	192.1	193	193
1990	209.2	219.4	218.2	214.9	215.8
1991	228.4	240.5	243.7	232.2	234.5
1992	244.6	257.4	253.2	248.3	249.5

Source: Employment Gazette, Remuneration Economics / BIM Surveys

How directors of large companies took greater salary rises

(% pay rises)

	Year to January			
Turnover range	1989	1990	1991	1992
Under £25m	12.6	10.4	9.8	4.6
Over £800m	20.6	19.5	18.9	9.3
UK workforce	8.7	9.1	9.7	8.0

Source: BIM


Roger Young

Cultural differences break down in the boardroom

Martin Dickson reports on growing pressure for changes in the way companies are run

Germany employs an elaborate system of checks and balances. France has an almost Napoleonic concentration of power. And the British prefer a pragmatic, middling path.

In the field of corporate governance – how companies are governed – as in so many other areas of political and economic life, there remain big cultural divisions between the world's leading industrial economies.

However, the differences should narrow significantly over the coming decade, according to a new study* of corporate governance in the seven leading western industrial nations prepared by Oxford Analytica, the British consultancy.

The single most important reason, it argues, is the increasing globalisation of business activity, which is "profoundly changing the nature of corporate management and organisation throughout all industrial economies and which will exert a decisive influence on systems of corporate governance over the next 10 years".

International competition is becoming more intense and cross-border takeovers are on the rise. But above all, says the report, international investors are growing in number and clout, and companies that want to attract capital will have to ensure that their interests in stronger corporate governance are met. The study, sponsored by recruitment firm, Russell Reynolds, accountants Price Waterhouse, investment bank Goldman Sachs, and lawyers Gibson, Dunn & Crutcher, is said to be the first of its kind.

David Young, the managing director of Oxford Analytica, notes that pension fund money invested outside domestic markets is forecast to grow from $92bn (£53.4bn) in 1985 to $780bn in 1995.

Market forces such as these, says the report, are likely to reinforce a trend, already occuring through European Community policy, for continental European corporate governance practices to move towards the framework common in Britain, the US and Canada.

Institutional investors in the three English-speaking countries – and the US in particular – have been most active in trying to make managements more responsive to shareholders' interests, demanding more outside representation on boards of directors, a better flow of information to investors and greater executive accountability for company policies and strategy.

That contrasts sharply with France and Italy, where boards have traditionally been supine in the face of executive power. And in Japan the board is, for all practical purposes, an extension of management with no independent powers, and shareholders are totally passive.

However, the report argues that Germany "is arguably the only one of the seven countries ... in which the system of corporate governance does indeed result in effective oversight of management by the representatives of other stakeholders".

This is because of its two-tier board structure, which involves a supervisory board, representing shareholder and employee interests, which in turn appoints an executive board of managers.

The report suggests that the German system could provide a useful model for companies in other countries which want to create new channels for corporate governance, alongside an existing boardroom structure.

However, the German system is often criticised for the powerful role played on supervisory boards by the nation's banks, both as shareholders in their own right and as proxies able to vote shares deposited with them, which can create strong conflicts of interest.

The survey suggests this power may be reduced somewhat over the decade, due to a desire among banks to cut their holdings, the growth of institutional shareholding and industry's reduced reliance on banks for capital.

At the same time, German companies will face legal and regulatory changes to improve accounting standards, ban insider trading and dismantle restrictive voting structures. The cumulative effect will be to weaken the power of the boards and increase the influence of institutional investors.

In France, where until now the president or directeur-general of a company has had almost unlimited authority, boards will become more active, due to international competition for capital, a move by French pension funds into equities, and increasing pressure from shareholders and regulatory authorities for greater transparency. The same trends are likely in Italy, though to a lesser extent, given the unusually large number of Italian companies owned by a single family.

Even Japan is expected to move a tiny bit towards a western-style system of corporate governance, prodded by factors such as a fledgling movement to strengthen shareholder rights and a need to include foreign directors in decision-making. However, there is a danger of exaggerating the impact of all these forces of convergence. International institutional investors, who are supposed to be the main engine of change, are still pretty passive, even in the US, when dealing with companies beyond their borders.

The report suggests they will demand greater access to information (which seems certain) and greater participation in decision-making (which is questionable in the medium-term) but are unlikely to engage in the kind of shareholder-versus-management voting battles which have become common in the US. The 1990s will thus be an era of "noticeable changes in corporate governance, but not revolution".

* *Board Directors and Corporate Governance. Available from Oxford Analytica, 52, New Inn Hall Street, Oxford OX1 2QB, United Kingdom.*

Testing time for fibres

New genetic tests to determine the origins of natural materials, including fibres, timber and meat, are being developed at the British Textile Technology Group.

The BTTG tests could have far-reaching implications for activities ranging from clothes retailing to the control of trade in endangered species.

The research started with the aim of finding a new way to distinguish between different fibres in clothing materials, which would be faster and more reliable than traditional examination by microscope. The textile industry needs such a test to detect the adulteration of expensive animal fibres like cashmere and mohair with cheaper wools.

BTTG scientists have discovered how to extract the small amounts of DNA present in processed fibres and then identify the species from which it comes. They are now developing a kit which will for the first time enable textile buyers to check quickly and accurately whether a particular fabric matches its specification.

At the same time BTTG's Manchester and Leeds laboratories are working to extend genetic testing to a much wider range of natural materials.

One potential application is in the food industry, to test the origin of meat products. An inspector or buyer could then tell immediately whether a sausage contained the correct amount of pork, beef or venison – and had not been adulterated with kangaroo or horse meat.

BTTG sees the timber trade as another outlet. The genetic test could distinguish between woods which are difficult to tell apart with conventional methods.

The technology also has forensic applications which would supplement the well-known role of human gene tests in rape and murder cases. For example, DNA analysis of stomach contents might identify a murder victim's last meal. And a single fibre at the scene of a crime could provide evidence about the clothing worn by a murderer.

Clive Cookson

From Monday BBC Radio's Westminster studio will lead a broadcasting revolution, reports **Michiyo Nakamoto**

Digital politics

BBC Radio is taking a big step into the digital age. From Monday, political news and programmes produced by the BBC's Westminster studio and broadcast throughout the UK will be recorded, processed and edited digitally, without the use of magnetic tapes.

The move, which represents the biggest change in radio technology for 40 years, is the first stage in what is likely to be a gradual process of digitisation of radio broadcasting, and eventually television.

"Broadcasting is about to undergo, on the radio side, one of those fundamental changes in technology and working practices that happens only a couple of times in a lifetime," says Richard Ayre, head of BBC Westminster. The news studio is the first in Europe to install digital technology.

Currently, radio programmes are compiled with the use of cassette tapes and quarter-inch magnetic tape – bulky reels about the size of an LP record.

In preparing taped sequences for insertion into programmes, a journalist listens to the relevant recordings of Parliamentary proceedings while watching a screen which displays a time code of the hour, minute and second as the recording progresses.

When he finds the section of the recording he wants to use, he notes the time code and requests that particular part of the recording from the studio manager.

The studio manager then physically cuts that section from the rest of the tape and sticks it on a smaller, individual spool for the journalist to use in his programme.

After a programme has been pieced together and recorded on to one tape, it is sent down the telephone line to Broadcasting House in London. There, it is re-recorded and sent to the BBC's regional broadcasting centres where it is again re-taped.

This is a time-consuming, laborious process. A long programme can use as many as 20 clips, each of which must be played at the appropriate time. It is also an expensive way to produce programmes because tapes, though not costly themselves, require expensive hardware that needs to be replaced every 15 years or so.

BBC Westminster spends £20,000 a year on magnetic tapes. Replacing the tape recording machines, which are just about reaching the end of their lifetime, could cost as much as £100,000.

The new digital audio storage, retrieval and editing system, known as D-Cart, was developed by ABC, the Australian broadcasting group. The system consists of a black box the size of a refrigerator which is linked up to terminals with a screen and keyboard, much like any computer terminal. The BBC system has two 1.2 gigabyte Winchester hard disk drives capable of storing 50 hours of audio.

BBC Westminster is the first news studio in Europe to go digital

Recordings can be made directly into the system from phone or broadcast lines, satellite links or conventional tape. The Commons and Lords proceedings, which will be used in the initial stages, come to BBC Westminster on direct lines from the chambers.

Because the material is stored in the system on magnetic hard disks rather than tapes there is no danger of damaging the recordings. Furthermore, the quality of digital recordings is better than that of analogue tape which can be marred by sound distortions.

But the greatest advantage of the D-Cart system is immediate and random access to all the material by up to 30 people at the same time.

The recordings in the system are identified by title and number which appear on the screen. Journalists can access any recording by placing the cursor on the title and hitting the play key.

For editing purposes, the track is represented on the screen as a bar along which an arrow moves as the sound progresses. When a journalist comes to the particular section of the recording that he needs, he simply marks the beginning and end of the relevant bit on his screen using edit keys. It is then his to work with, mixing it with his own voice, music or other effects in the studio.

"The system is ideal for fast-moving situations," says John Williams, a media consultant who is working with BBC Westminster to install the system.

D-Cart costs a minimum of £70,000 and has a life expectancy of seven to 10 years, according to BASYS Automation Systems, which markets the system in Europe.

Despite the high cost of the system, BBC Westminster expects to make substantial savings through the introduction of D-Cart. It will eliminate the need for the time- and labour-consuming process of recording and re-recording on tape as a programme is sent from the studio to Broadcasting House and from there to regional studios.

The recordings, which will have to be erased from the system after 50 hours, will initially be backed-up on tape until an archiving system is developed.

Nine studio management posts are being eliminated in the first phase of installing D-Cart and more are expected to follow during phase two in the first half of next year.

D-Cart is widely used by the ABC network in Australia. Broadcasting House, headquarters of BBC Radio, will begin installing D-Cart in November.

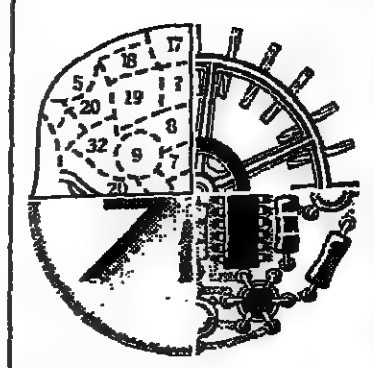
Elsewhere, the US ABC radio network in New York, CBC in Toronto and Europe-I in France plan to install the system in next few months.

Digital editing systems are already used for producing some music programmes but BBC Westminster will be the first in Europe to use it for news programmes. The BBC uses a similar digital editing system for video, but this is not yet up to broadcasting standards and does not provide multi-user access.

Digital recording and editing forms one link in a three-way chain of future digital audio broadcasting. Already, transmission of programmes from Broadcasting House to regional transmitters throughout the country is digitised.

To complete the chain, transmission from radio studios to Broadcasting House, and from the regional transmitters throughout the UK to individual receivers will have to be digitised. When that happens, CD-quality music and sound will be available on radio, marking another fundamental change in radio broadcasting.

Worth Watching · Andrew Baxter



Up to date at the click of a mouse

Engineers in manufacturing typically spend around 40 per cent of their time looking for information – everything from Cad drawings to memos – but when they find it they often have no way of knowing if they have the latest version.

Now Computervision has launched a product called VirtualStation which aims to solve the problem. This allows users to manipulate and review information spread across multiple systems, sites and storage media from a single workstation.

The accumulated information of the organisation is available at the click of a mouse, says Computervision, where previously the user may have needed a workstation, a PC and, perhaps, an Apple Mac to access all the information. Computervision: UK, 0203 417718.

Producing the perfect droplet

A new liquid spray technology which enables droplets to be produced in a uniform size has been invented by Cambridge Consultants (CCL), the UK design and development group.

Conventional liquid spraying technology produces droplets of varying size over a wide range, but uniform droplets offer potential benefits to a variety of users.

In agricultural spraying, for example, a more regular drop size maximises the amount of insecticide, fungicide or herbicide reaching the plants. The drops will not be so small that they are blown away or so large that they fall straight to the ground.

And in vehicle fuel injectors, a more uniform spray offers cleaner and more predictable combustion, says CCL, while controlled drop size in fire-fighting could reduce the amount of water needed. Cambridge Consultants: UK, 0223 420024.

Printer hammers its message home

One way to make a big impression in the fiercely competitive industrial printer market is to hammer a way to success. At least that is the approach at Swedish-owned Facit, which this week introduced a new printhead technology to the UK market.

Facit has been selling its nine-pin printhead using the so-called Flexhammer process for 16 years, but has now launched a 24-pin printhead. The tungsten carbide-tipped hammers are held back from the paper electronically, but spring forward when the current is stopped to hit the paper.

The new printhead can produce up to seven copies, and is designed to last for more than 1.5bn characters. The heavy printer in which it is fitted is aimed at applications such as invoicing where high-quality flexible printing, along with economic performance, is essential. Facit: UK, 0634 868000

Mountain bikes kept in suspense

Mountain bike riding can be a painful experience without suspension – both for rider and machine – and for serious riders suspension is becoming increasingly important.

Muddy Fox, instigator of the mountain bike boom in the UK, has front or rear suspension available on various models, but has now gone a stage further with its Intereactive Suspension design combining front and rear suspension in one system.

The concept, originated by the British inventor Dave Smart, links suspension movement of the wheels so that they rise and fall together, relative to the frame. No matter how the weight distribution changes, the bike always retains level trim.

The chain tension interacts with the suspension system to ensure that the force the rider puts into the pedals cannot compress the spring, so the bike can climb and sprint as fast as any conventional rigid frame. Muddy Fox: UK, 081 998 8711.

FINANCIAL TIMES SURVEY

CUMBRIA

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Cumbria's economy has been cushioned by defence spending and the nuclear industry, but the good times have suddenly come to an end. A struggle to create new industries and more jobs has just begun. **Ian Hamilton Fazey** and **Chris Tighe** investigate

Local agony, national issue

THESE ARE worrying times for Cumbria, the English county known best for the Lake District. It is remote from much of England, and even more so from the rest of Europe, but cannot be ignored, for national issues are involved.

It is not just the recession, that has wiped out around 2,000 jobs, but the additional impact of two large doses of structural unemployment, which have already resulted in the loss of many thousands more.

Cumbria is undergoing a traumatic change affecting two pillars of its economic structure – warship building and nuclear fuels. Each has created a fund of high technology talent and skills. The fear is many of these will go to waste if they cannot be redirected.

The first dose of unemployment was expected: British Nuclear Fuels (BNFL) has spent most of the past 10 years building Thorp, its controversial £2.8bn thermal oxide reprocessing plant at Sellafield. It is nearly complete, and at least 6,000 construction jobs are coming to an end.

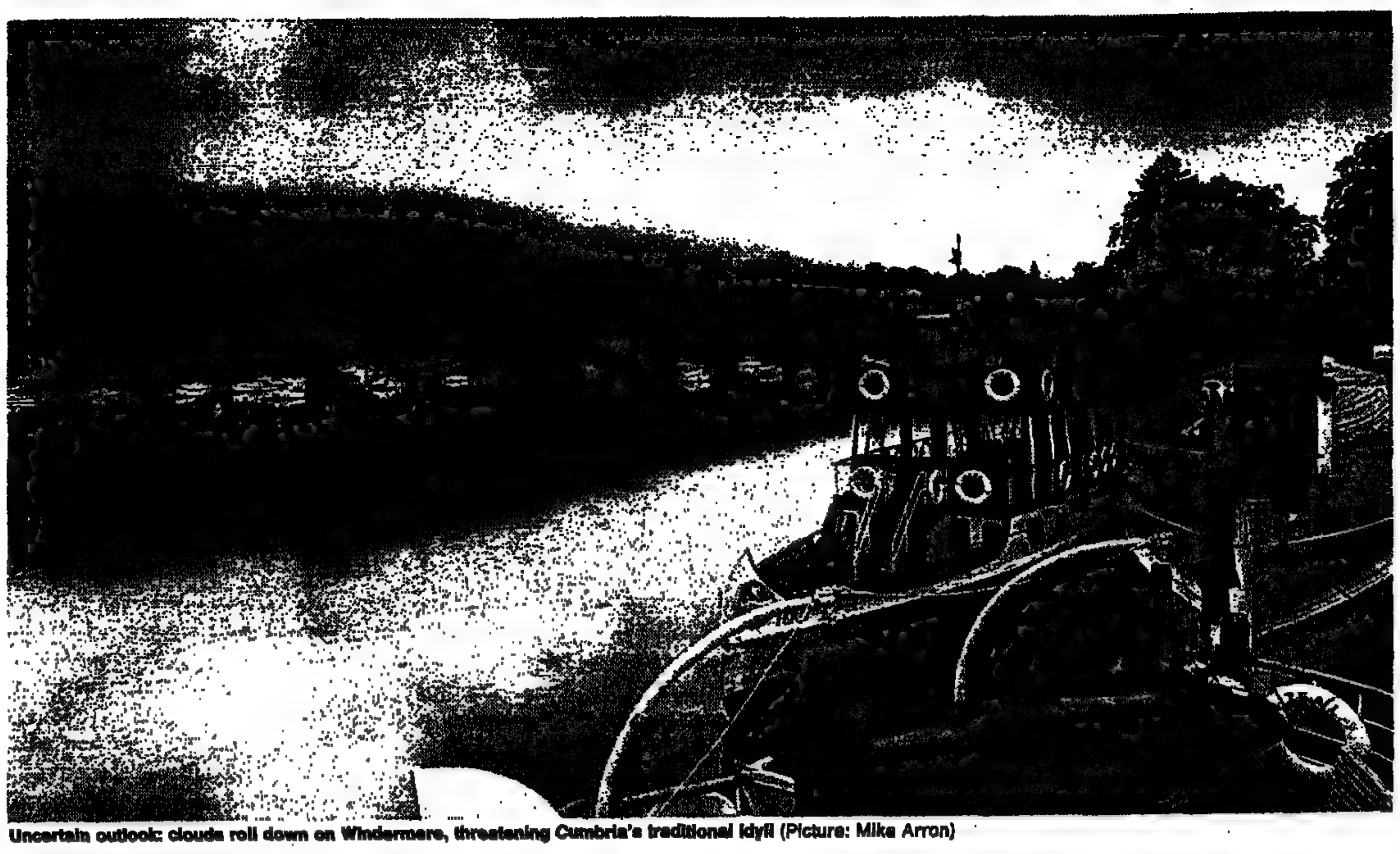
The community started getting ready for this in 1988, with BNFL putting in the bulk of £1.15m a year of funding, in partnership with local authorities, to try and help rebuild the local jobs market. A science park has just opened as part of the process, but against a tide of recession, there is little prospect of quick success.

Coping with this trauma would have been hard enough, but the end of the Cold War has limited the market for warships. Once VSEL, the former Vickers shipyard at Barrow-in-Furness, has finished the four nuclear submarines needed for the Trident missile system, there will be no more such regular orders from government.

More than 6,500 VSEL jobs have already gone and another 3,000 will eventually reduce the workforce to 5,000. Prospects of doing better have been dashed by the recession, which has prevented the company breaking seriously into a depressed offshore market.

It is against this background that Cumbria is pressing the government to grant development area status to Barrow, Whitehaven and Workington, and the hinterlands from which they draw their labour. Local unemployment rates of up to 17.7 per cent are forecast for next year.

Even intermediate status would be welcome, not only for the discretionary government grants it would unlock, but because of the access it would give to a wider range of European Commission funds. The government's dilemma is that, increasingly, more areas are pressing for such special help as recession bites, while the public purse-strings have been drawn tighter by the latest economic crisis.



Uncertain outlook: clouds roll down on Windermere, threatening Cumbria's traditional idyll (Picture: Mike Arron)

Cumbria, however, has suffered two other big rounds of structural unemployment in the last 10 years, with the closure of the Workington ironworks in 1982, followed by deep coalmining, centred on Whitehaven, three years later.

The experience helps explain the impressive way in which people are approaching their latest difficulties. Given positive thinking and the right partnership between all involved, things can be turned round: Workington's unemployment rate fell from 23 per cent in 1982 to 8.6 per cent in 1990. Of course, development area status and an enterprise zone also helped.

Although recession has cut the net gain in jobs in the steel and coal closure areas from 4,000 to 1,000 – and the Sellafield redundancies will push the figure into net loss – no one is whingeing.

Indeed, Cumbria is on the reprise, renewing the attack, trying to accentuate its assets. There are many, including the Lake District – although tourism planners are also trying to promote the aptly-named Eden area and its unspoiled Pennines of east Cumbria to ease pressure on the more popular lakes and fells.

Moreover, old market centres such as Kendal, Penrith and Carlisle are relatively well off because they are in the north-south M6 corridor. Indeed, it is the comparative remoteness of Workington, Whitehaven and Barrow that is one of the problems no amount of "talking up" can counter.

Not that this has stopped the newly-launched Cumbria Marketing Initiative from trying. It asserts in its flagship brochure that Cumbria is accessible no matter where you are or want to get to. "Good communications by rail, road and sea make it easy to get into and get out of, both for people and goods," it claims.

The initiative, chaired by the energetic Mr John Hancock of the highly successful Sealy bed manufacturer, is unanimously backed by public and private sectors and the various job-creation agencies, yet these same people and bodies are also campaigning for better roads.

"The Way Ahead," a lobbying document they jointly produced last year, warns: "The survival and development of West Cumbria is drastically threatened by its totally inadequate, poor quality, transport network. West Cumbria as an industrial region will not survive without urgent drastic action."

Councillors and business leaders will be arguing their case again next month with Mr Kenneth Carlisle, the roads minister.

Top priority is seen as the dualling of the A595/A66 route from Sellafield to Scotch Corner – the A66's junction with the A1 route to Britain's east coast ports – and of the whole A590 from Barrow to the M6.

At present, these routes are undergoing only piecemeal improvements, although the Department of Transport's Transpennine strategy report, published last month, has at least raised hopes of a complete dual carriageway link between Penrith and Scotch Corner.

According to a recent consultants' report prepared for the county council, Furness Enterprise and the West Cumbria Development Agency, the £195m cost of comprehensively upgrading the A590, A595 and A66 into dual carriageways would be more than recouped by the government, thanks to the benefits of better road links in retaining jobs and attracting new inward investment.

Cumbria's communications strategy, launched last November, also calls for improvements to the west coast main rail line and high quality direct links with the Channel Tunnel.

The county's lack of scheduled air services is also seen as a deficiency; a study into the feasibility of a West Cumbrian air strip feeder service is in progress.

Because of the high technologies involved in the defence and nuclear industries, Cumbria's roads lead to a highly qualified or skilled workforce which could, as experience elsewhere shows, adapt easily to similar levels of technical demands in other sectors.

The ethos and culture favour high quality, mistake-free manufacturing, but on its own, the fear is this will not be enough.

Mr Harry Knowles, chief executive of Furness Enterprise, says: "This is a national issue. You cannot leave it to the local community to deal with. We have an asset that has been built up over many years in terms of skills of local people. If we have to rely entirely on local initiatives, we cannot succeed. We need to be able to offer financial incentives to attract inward investors."

The local community is actually doing all it can to pull together – impressing Mr Michael Heseltine, president of the Board of Trade, with a display of positive determination when he launched the Cumbria Marketing Initiative in Barrow two weeks ago.

But courage is not enough. As though to prove Cumbria's needs, bad weather forced Mr Heseltine to cancel half his programme because his helicopter could not fly and roads were not quick enough for him to get to Sellafield and back to London in time for a Cabinet meeting.

A few days before, a party of Korean electronics industry specialists had been enjoying better weather, with perfect sunsets and the Lake District turning golden with autumn.

"They were very happy with what they found out about the local skills base and the prospects for recruitment," Mr Knowles says. "But they were looking for the best package and we are up against competition from Scotland and Wales. Without their sort of financial assistance, you are at an immediate disadvantage."

ECONOMIC DEVELOPMENT

Ten steps forward, 11 back

AN ECONOMIC developer's nightmare is about to come true in West Cumbria. The recession, coupled with the next round of job losses at British Nuclear Fuels (BNF), will by next March have wiped out the same number of jobs as those created by various vigorous initiatives in the past 10 years.

Jobs lost, or about to be, since the recession began in 1990 include 350 at Cumberland Clothing, 35 at Cumberland Leisure, 80 at Design Fabrique, 150 at Supamoor, 450 at Volvo Buses - which is moving to Scotland - 130 at Davy Distington and 500 at Miller's Footwear.

Mr Tony Winterbottom, chief executive of the West Cumbria Development Agency (WCDA), says: "We reckon on having helped generate about 4,000 new jobs in the last 10 years. Apart from the bigger recent closures caused by recession, about 1,000 more jobs have been lost in a range of smaller businesses. We still have a net gain of about 1,000 jobs, but Sellafield's redundancies will wipe those out."

BNF is shedding jobs, now that construction of its thermal oxide reprocessing plant is complete. It will be West Cumbria's third dose of large-scale structural unemployment since 1982, when steel industry closures caused the first shock, pushing up unemployment to 23 per cent.

This was followed by the end of deep coalmining in Whitehaven in 1985. British Steel Industry (BSI), the job-creation agency and fund-provider set up by British Steel, was soon joined by British Coal Enterprise (BCE), its counterpart for mine-closure areas, in the struggle for economic reconstruction.

The locally-named Moss Bay Enterprise Trust - set up in 1982 to help Workington - became the basis for Enterprise West Cumbria in 1985, expanding to include Whitehaven. In 1988, BNF joined in to try to ensure the whole area was ready for a succession of Sellafield doses of structural unemployment in the early 1990s.

The WCDA succeeded Enterprise West Cumbria, while BNF also established a separate fund to back promising businesses and developments in a similar way to BSI and BCE. Each year the fund gets £1m a year from BNF and £50,000 each from Cumbria county and Allerdale and Copeland district councils.

It sounds simple, but things have been more complex. The fund and agency have different boards and there has sometimes been disagreement between them on whether projects merit funding.

There has also been a sometimes confusing array of parallel or complementary initiatives. There is a Whitehaven Development Company - comprising English Estates, the WCDA and Copeland Borough Council - the government's Cumbria Action Team, and the Rural Development Commission, which is very active in the county.

In addition, Cumbria is a member of both the Newcastle-based Northern Development Company and Inward, the north-west's agency. Both are regional agencies for inward investment from abroad and, in the NDC's case, from elsewhere in the UK. They are funded partly by the government's Invest in Britain Bureau.

Then there are various other activities of the local authorities. Copeland, for example, is a partner in the Tourist Strategic Development Initiative, not to mention the work of bodies like Voluntary Action Cumbria and the Prince's Trust.

On top of this is a Euro-input, since Workington, Whitehaven and Barrow are all eligible for European Commission structural funds. And, of course, there are

John Hancock: now chairs the Cumbria Marketing Initiative

still BSI and BCE, plus the local training and enterprise council.

Money from government since 1982 has totalled about £55m. This has gone into cleaning derelict sites in Workington, and around its harbour of Maryport, the building of advance factories by English Estates, and regional development grants to help inward investment and expansion.

It has, however, helped lever about £260m from the private sector in inward investment and this has helped to create 4,000 jobs - but as recent events have shown, not all have been secure enough to withstand a deep recession.

Mr Ken Dixon, the recently retired personnel director of Alcan's Cumbrian plant, now chairs the WCDA. "Most of our large companies are foreign-owned and basically branch factories," he says. "In hard times, they are more likely to cut the branches and go back to the trunk."

He says a survey of 25 companies employing 6,300 people in the area showed 11 of them controlled from abroad, nine run from elsewhere in the UK and only five with stay-or-go decision making power in Cumbria. The overall position was that 5,000 of the 6,200 jobs were externally controlled, and therefore more vulnerable than locally run - and, usually, owned - businesses during a downturn.

Moreover, some inward investors have not been able to make much use of Cumbria's depth of engineering and technological skills. And, part-time feminisation of the workforce in the textile, clothing and footwear sectors has not done much for long-term improvement of the local tax base or spending power.

Indeed, Mr Winterbottom thinks the basic structural problem has been disguised by BNF mopping up much male unemployment during its expansion phase, now ending.

Mr Laurie Haveron, BSI's chief for northern England, says much future investment needs to be targeted on existing locally-owned businesses to help them improve their management and marketing so they can grow soundly.

This is no short-term panacea, however. BSI's own recent investments have put about £250,000 into 12 projects, but none are big and even those capable of large-scale, job- creating growth, will probably take years to achieve it.

Meanwhile, there has been some disquiet among the main fund providers at the plethora of efforts and parochialism. Inward investment policies have been ad hoc and dependent on a sometimes tight availability of factory space. Under political pressure, some funds have gone into propping up ailing companies, postponing but not averting ultimate failure.

West Cumbria Development Fund recently asked Professor John Fyfe of consultants W.S. Atkins to examine the effectiveness of the current structure of economic regeneration bodies. His review has been the subject of lively, but confidential discussions, and will result in modifications to both the fund and the WCDA.

The fund and the agency will be merged into a new partnership which will be refocused on areas where it is felt the greatest results can be achieved.

Meanwhile, Mr John Hancock, the WCDA's first chairman, is now chairing the Cumbria Marketing Initiative, launched two weeks ago. He is a successful private sector marketeer already, running Sealy beds - Silentnight's thriving upmarket subsidiary - in Aspatria.

WCDA has seconded Ms Dawn Quigley as his full-time project director and they are determined to cut through any confusion by establishing a clear image for Cumbria.

Mr Hancock avers: "I think things were fragmented. The marketing initiative is not an organisation. We are a marketing campaign. We don't have a bureaucracy, we are not a quango, and we don't threaten anyone. We shall be trying to avoid looking backwards. If you spend too much time looking over your shoulder you are likely to bump into lampposts."

Ian Hamilton Fazey

TOURISM

Crowd control a priority

THIS IS a good time of year to be visiting Cumbria. The chances of rain are much as they are in any other season, but the autumn colours in Lakeland are the best, the crowds have receded, and there is an air of mellowness which becomes the ancient, weather-beaten fells, and the stone-walled farms and villages.

If you do go, you will be pleasing the Cumbria Tourist Board which is trying to spread the tourist season away from the summer peak. And that matters, because Lakeland's problem is increasingly one of over-use: too many cars, fellwalkers and speedboats.

Not that this year has seen much increase in those pressures. The CTB's mid-year survey showed fewer than a third of tourism businesses enjoyed more custom than last year.

"The recession has certainly bitten up here, though I think Cumbria is holding up better than most," says Mrs Judy Johnson who runs holiday cottages at Cartmel.

In a typical year, people make about 2.75m trips to Cumbria and spend over £300m. The average holiday is 12 days. These figures include about 250,000 foreigners who pass through for a night or two. Tourism now ranks number two in the county after manufacturing, surpassing farming which is in decline - itself a matter of concern to the tourist industry.

Cumbrian tourism falls into two broad categories: the central area with the beauties of the Lake District, and the outlying areas with fewer obvious charms but much eagerness to share in the benefits.

The CTB's policy is to try and sustain the growth of the industry, though without harming the very attractions that people come to see. Some might feel that that is an impossible task. On a hot August week-end traffic can

Picture: Mike Arron

In autumn, the Lakeland colours are at their best and there is an air of mellowness

come to a virtual standstill, while anyone struggling to the top of the Old Man of Coniston might just as well be standing on Brighton beach.

The resulting wear and tear can be considerable. The National Park is working with local authorities on a traffic management project. Large maintenance works are under way to repair fellside trails, and conserve lake and river shores. A row is also rumbling over plans to impose a 10mph speed limit on Lake Windermere to limit noise.

Other attacks on the environment can seem more gratuitous. A notorious case is the plan to build a windfarm on Kirkby Moor overlooking Ulverston. This site, admittedly on the fringes of the Lake District but nonetheless prominent, is to be dotted with 12 giant windmills to produce electricity at a time when the big national generation companies are closing down plant because of a capacity surplus.

One way of dealing with the pressure from tourism is to encourage people to come at different times, or visit more out of the way places, such as the Eden Valley to the east, Carlisle to the north, and Cartmel and Furness to the south.

An area that is keen to attract more visitors is the west, which has been badly hit by declining industries but enjoys none of the benefits of communities close to the M6 in the east. An ambitious programme to raise the number of visitors by 5 per cent a year during the 1990s and to create 1,000 jobs is ahead of target.

"Even though we're in recession, the numbers are growing," says Joan Ellis of the West Cumbria Development Agency. The region's appeal include the western lakes and fells, the seaside and specific attractions like Muncaster Castle and the Ravenglass miniature railway. A surprising hit has been the Sellafield nuclear facility - once denounced as a blight by the local tourist business - which now draws 150,000 visitors a year with its open-door policy.

The quality of Cumbrian tourism depends a lot on the strength of local support. As it becomes more of a year-round business, it provides more secure employment, and efforts are being made to improve training of staff and involve local communities.

But Cumbria's farm population is shrinking - specially in the uplands - as the economics of Lakeland agriculture deteriorates because of tight prices and production quotas. The fear is that as the farming community dwindles, so will the well-cared-for appearance of the Lake District itself.

To combat this, the county last year launched the Upland Cumbria Initiative, a fund to help farmers maintain the fabric of the area by repairing dry stone walls and improving footpaths - something they previously did as a "free" service.

David Lascelles

Chris Tighe investigates the nuclear industry

Thorp jobs bubble bursts

KEEN GARDENER though he is, Mr Terry Byrne is spending more time these days than he would wish among his plants.

Last month, he became one of the thousands being made redundant as construction work at British Nuclear Fuels' Sellafield site winds down.

At 53, Mr Byrne, who lives in nearby Egremont, thinks his only hope of working again lies in possible future Sellafield developments. Prospects of finding work elsewhere locally are grim; his 28-year-old stepson, whose construction contract at Sellafield ended two years ago, has been job-hunting ever since.

The Sellafield nuclear waste reprocessing plant, a massive, world-league complex in one of England's most isolated areas, dominates the economy of Copeland borough.

More than 8,000 people are on the permanent Sellafield payroll and last year contractors on the site, carrying out an investment programme worth £1.5m a day, employed a further 7,500. Even allowing for "travelling men" - contract workers hired from outside the county - Sellafield was employing more than one in three of Copeland's workforce.

But this figure is now nosediving as construction work, especially on the new £ 2.8bn Thermal Oxide Reprocessing Plant (THORP), due to begin operating commercially next year, tails off.

Contract construction employment at Sellafield, already down to 4,700 in mid-1992, is expected to drop to 1,500 by the end of 1993. As this bubble bursts, it is becoming clear that Sellafield's presence has been masking serious deficiencies in the local economy.

To make matters worse, the construction rundown has coincided with closure of some significant local employers and the collapse of newer companies which, it had been hoped, would diversify West Cumbria's employment base.

"Our failure rate this year will be worryingly high," says Mr Alan Williams, business manager of the West Cumbria Development Fund, set up by Copeland, Allerdale and Cumbria councils and BNFL to try to diversify the local economy. Four companies, employing in total more than 100, have closed since March forcing the fund, into which BNFL puts £1m a year, to write off £250,000.

A number of others which the fund has assisted are "on the edge", says Mr Williams. "It's extremely frustrating, it's undoing a lot of the work we're doing," he says. "With the BNFL lay-offs, the size of the problem is such that it can't be resolved simply by business development; there's got to be a significant level of inward investment."

That view is widely shared in Copeland. Ironically, it was Sellafield employment which contributed in the 1980s to keeping down Copeland's jobless figures, resulting in loss of development area status in 1983. Since then, says Mr Bob Metcalfe, the council's development and services director, Copeland's sole new inward investment of any size has been a Scottish supermarket.

Chemicals manufacturer, Albright and Wilson, the borough's second largest private sector employer, is in Whitehaven. Now American-owned, the company has shed jobs recently but invested heavily, spending £20m over the last three years alone, largely on effluent discharge reduction. Its Marchon works, dominating the Whitehaven skyline, provides 1,200 much-needed jobs; a recent advertisement for two £3-an-hour part-time canteen staff to fry chips for the nightshift yielded 400 applications.

Works director John Markham says Copeland's economy is fragile, even though it has companies at the leading edge of technology.

The problems have various causes, one

> **Contract construction employment at Sellafield is expected to drop to 1,500**

of which is poor transport infrastructure. The main A595 running down the coast is in parts little more than a country lane; the M6 motorway is an hour's drive from Whitehaven, on very variable roads. A one-day return visit to London for a Copeland-based businessperson is extremely difficult, and the A66 trip across the Pennines to the A1 can be tortuous, especially for heavy lorries.

Another difficulty has been competition from Workington which has development area and enterprise zone incentives. Local economic development bodies are pushing for development area status for the Whitehaven travel to work area, too. Its jobless rate, they predict, will rise from 9.6 per cent now to 16.5 per cent at the end of 1993, largely due to the Sellafield construction rundown.

History, too, has bequeathed problems. Having moved from dependence on extractive industries, now largely defunct, to reliance on Sellafield, Copeland has little tradition of enterprise culture. Its 1991 6.4 per cent self-employment rate compares with 10.4 per cent for Cumbria overall and 11.2 per cent for the UK.

Cumbria's lack, prior to this autumn, of higher education facilities has also led many of its brightest young people to leave the area. The new Westlakes science and technology park, just south of Whitehaven, aims to reverse this brain drain, and to build on the purchasing power of Sellafield and its technology transfer potential by offering an attractive base for knowledge-based companies.

The first phase is 60 per cent occupied but has so far brought in only one business from outside Cumbria, south coast engineering company Gravatom, a BNFL supplier.

BNFL is heavily committed to Westlakes. It has relocated its cytogenetics and analytical services departments to a new £6m laboratory complex in the park and invested £0.875m in the business space development. The Rural Development Commission has also spent £0.875m, its largest-ever single investment, and £1.1m has come from the European Community.

BNFL is also spending £2.5m on a new research institute at Westlakes. Headed by Dr Roger Berry, formerly BNFL's director of health and safety, the institute aims to become an independent unit, working for BNFL and other clients as a centre of excellence for the study of genetics, biotechnology, occupational health and environmental subjects.

The institute's first graduate students arrive this month; Dr Berry, who is pursuing research contracts, is establishing links with Lancaster and Newcastle Universities and has recruited microbiologist Professor Derek Ellwood from Durham University to join the Westlakes research team.

BNFL's importance in West Cumbria cannot be overestimated but its presence has negatives too. Local economic development bodies mostly deny Sellafield exerts a deterrent effect on potential inward investors, but Copeland council's Mr Metcalfe describes the nuclear industry as a double-edged sword. While it is the bedrock of the local economy and a potential attraction to some companies, he says he has evidence of industrialists who have decided not to come, or have withdrawn investment, because of it.

Copeland people have generally defended Sellafield against what they see as ill-informed attacks by environmentalists and outsiders. But feelings are more mixed about the underground nuclear waste repository proposed by Nirex, a nuclear industry body which does not enjoy the high regard locally in which BNFL is held.

Why, many locals are asking, should they be expected to shoulder a national, indeed international, problem which other communities in Britain have vociferously fought off, and yet still suffer deficient infrastructure?

If the repository goes ahead, it promises to create 3,000 temporary construction jobs, and up to 400 for operators on completion.

Before then, however, stretch years of controversy and emotive publicity about the burial of radioactive waste deep underground. It is just the publicity Copeland could do without.

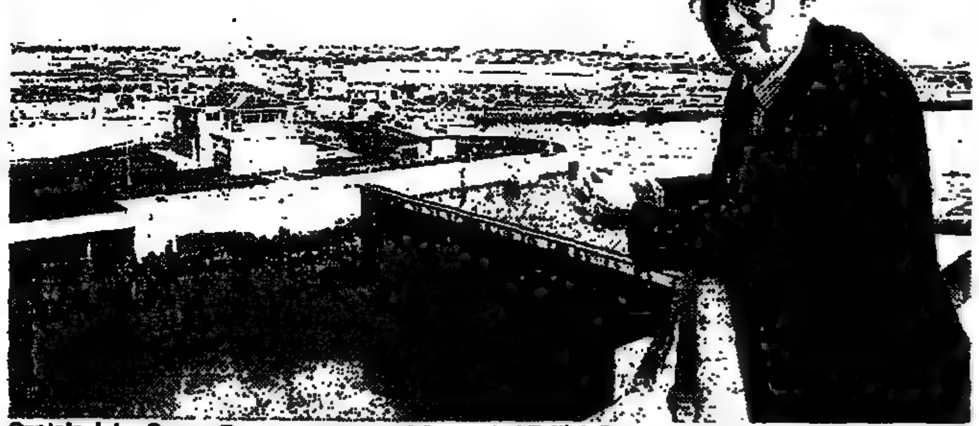
Small dividend from peace for Barrow, says **Ian Hamilton Fazey**

Employment drains away

COPING WITH unemployment in Barrow-in-Furness is rather like trying to fill a bath slowly with the plug out. Jobs are draining away at a faster rate than they can be replaced, and there is little prospect of getting the plug in for some time.

It was the end of the Cold War that pulled the plug, two years ago. Barrow is the home of VSEL, Britain's nuclear submarine shipyard. The former Vickers company, privatised from British Shipbuilders in the mid-1980s, lived off the threat from the Soviet Bloc.

Once this was removed, the switch in national defence policy from deterrence to maintenance wiped out much of the demand for VSEL's skills. Britain's planned fleet of 18 nuclear submarines and 12 powered by diesel-electric motors was cut to 12 and four respectively.



Captain John Green, Barrow manager of Assocated British Ports, at his new £25m dock gates, widened at government expense to allow Trident submarines to sail from the dockyard to the sea. Bigger surface ships can now get into Barrow, improving trading prospects for exporting bulk roadmaking materials, such as stone and slag. (Picture: Mike Arron)

Of the latter, one was already being built at Barrow, and the other three at Cammell Laird on Merseyside, a VSEL subsidiary, so these were the end of the diesel-electric order book. To complete the nuclear fleet, there remained a need for only four new vessels to carry Trident missiles – and these are all that is left for Barrow to build now.

The effect has been devastating for the Furness area of Cumbria, where the local economy is dominated by VSEL. Scott, the tissue papermaker best known for Andrex toilet rolls, is the second largest private sector employer and has about 400 people. At peak, two years ago, VSEL employed 14,500.

Even now, with the workforce set to fall to just under 8,000 at Christmas, VSEL remains a giant – and it still will be when the company has slimmed down to 5,000 within the next two years.

However, HMS Vanguard, the first of the Trident boats, was rolled out earlier this year and is due to sail to Scotland for sea trials this month. The next two submarines – Victorious and Vigilant – are in production at roughly 18-month intervals behind Vanguard, while parts of the fourth boat, still unnamed, are in the pre-assembly stage. The total programme will therefore guarantee the 5,000 jobs only to the end of 1994.

VSEL had hoped to bottom out at about 7,000 jobs. It hoped to diversify partly by making more land armaments – notably its self-propelled howitzer – and transferring skills into production of offshore components for the oil industry. To get a foothold, VSEL bought Seabord Lloyd, a well-head manufacturer.

The recession, however, has, at best, deferred prospects of breaking into new markets in a big way. Furness Enterprise, the local regeneration agency, has had to accept the 5,000-job figure and plan accordingly.

Mr Harry Knowles, the agency's chief executive, says: "In the past two years alone we have had an increase of 117 per cent in people out of work. Our forecast is that 12,000 jobs will be lost in the community over five years. Unemployment was 4.6 per cent in 1990 and is 8.5 per cent now. It will be 15.4 per cent by the end of 1993 and will rise to 18 per cent in 1994."

VSEL's impact goes well beyond the immediate casualties. Its workers are highly paid, not least because 70 per cent of them have professional qualifications or levels of skill which took years to acquire. They have long provided Barrow with a strong tax base and exercised considerable local spending power. Moreover, every one job within the shipyard is thought to support at least two more outside.

Furness Enterprise, which is sponsored by VSEL, Scott, the Rural Development Commission, English Estates, the Department of Trade and Industry, Cumbria Training and Enterprise Council and the district and county local authorities, has set itself an ambitious target – 5,000 job opportunities over 10 years.

However, this will still leave the community at least 7,000 jobs short when compared with 1990. The key to achieving the target, or better, will be to find advanced industries looking for the highly skilled, adaptable labour on hand.

Mr Knowles says: "We need a focused approach to make sure skills for advanced industries are not lost. We will prevail – provided we get the right sort of partnership with central government. We don't see this as government intervening in the market economy, or giving us a crutch. But we do need full development area status so that we can compete equally with other areas."

He would also like to see some sort of agency to help the private sector shoulder some of the risks associated with diversification from defence markets – a similar principle to what has been done in docklands or inner cities through the various forms of the urban programme, or in coal and steel closure areas.

There, reduction of risk for developers – through government paying for land assembly and reclamation – has proved a powerful lever of even larger resources from the private sector.

Mr Knowles thinks something comparable should be done in a swords-to-ploughshares programme, as has been the case in the US. It would not just be for giants like VSEL; another local defence contractor is the family-owned Oxley Developments, an advanced electronic ceramics specialist employing 250 and turning over about £10m a year.

Oxley's military technology – which has gone into things like infra-red night vision lights to stop blacked-out US and UK combat helicopters crashing into each other in the dark – is transferable to anything using microwaves, in such fields as telecommunications, satellites, mobile radios and fibre optics.

Dr Geoff Edwards, the managing director, says the company can more than hold its own against Japanese competitors from a technical viewpoint, but needs to scale up its production resources to win a viable share as the world market develops for electronic ceramics. He needs further funding of £1m and does not want to increase borrowings or lose independence.

There are also bigger ideas on the horizon for the shipyard. The DTI sponsors a maritime technology centre which is looking into using new materials to make cargo ships – learning from the anti-turbulence technology that makes submarines go faster – or developing giant submarine cargo vessels which could traverse the oceans on autopilot.

But such things are years off. There are no quick solutions – only quick problems. The speed of collapse of the defence market could not be remotely envisaged in 1989.

An evident abundance of goodwill, determination and community spirit means all sides are facing the problem squarely, but the hiatus between putting the plug back in the bath and opening the taps wider to fill it quicker is going to be very uncomfortable.

Chris Tighe reports from down on the farm

Soil appeal wanes

IN THE LEAFY driveway beside the farmhouse, two-year-old Brook Wannop is clambering into his toddler-sized plastic tractor.

Nearby, a contented tup, resting after a blissful month in a field with 500 ewes, is nonchalantly nibbling the grass.

The cows are mooing, the limpid sun dapples the autumn leaves; it is the sort of scene that makes city dwellers long for the good life.

But Brook's father Alistair, the National Farmers' Union Cumbria county chairman and the third generation of Wannops to farm this land near Carlisle, hopes his son will study for a profession, if only as a second string to his bow.

Throughout Cumbria, a county where farms are typically small and family-run, the tradition of sons following fathers into agriculture is weakening, he says.

"I'm about the last generation which has really gone into it in a big way," says 30-year-old Mr Wannop. He has no personal complaint about his choice; dairy farms such as his are by far the most buoyant sector of Cumbria's agricultural economy.

Even so, his farm's 5 per cent return on capital employed is not sparkling, given the effort and constant commitment involved in running a 900-acre farm with 280 cows. And for many Cumbrian farmers, running lowland livestock holdings or upland hill farms, earnings are meagre and prospects poor.

"The dairy farmer in the county has high overheads but a high return; the hill man has a low return but lower overheads," explains Mr Wannop. "The lowland livestock farmer tends to get the worst of both worlds; he has relatively low income but high overheads."

Cumbrian agriculture is dominated by dairying, beef and sheep; in 1990 it had 6,382 holdings providing direct employment for 14,600, nearly 4,000 of whom were spouses or other family members.

According to Cumbria county council, net farm income in the county's less favoured area – virtually all its upland – averages only around £10,000 annually and is expected to fall further in real terms in the 1990s. In 1989/90, some livestock farmers depended on grants and subsidies for up to 95 per cent of their income.

During the 1980s, Cumbria's agricultural employment dropped by nearly 900, yet this has not triggered a large exodus from the land. Instead Cumbrian farmers seem to have resorted to cost-cutting and ingenuity.

During the decade, the number of full-time hired workers dropped by 34 per cent; numbers of full-time farmers dropped by 11 per cent but the proportion of part-time farmers rose by 22 per cent. Even before the government started urging diversification, Cumbrian farmers had begun exploring its potential, often by hiring out themselves and their machinery on a contract basis.

The tradition of sons following fathers into agriculture is weakening

Mr Wannop believes more than half the county's farmers rely on income from diversification, ranging from bed and breakfast to wind farms.

Still, times are tough. "Many are borrowing deeper and deeper from the banks, selling off the odd asset, doing more outside work," he says. "I don't think there's any fat to be cut in the agricultural industry."

According to Rural Development Commission projections, Cumbria's agricultural sector is expected to lose 1,360 full-time jobs in the 1990s; indirect job losses are likely to double this figure to 2,720.

The implications for Cumbria's farming communities are clearly grim and the county is trying to attract European Commission funding.

The impact of job losses on this scale should excite concern, too, among the millions of visitors from Britain and overseas who each year pour into the county, and especially the Lake District, to admire the scenery which farming has helped create.

Lakeland farmers' hopes were raised last autumn by the government's announcement that it was considering declaring the Lake District an environmentally sensitive area. The proposal promised financial support for farmers carrying out environmentally-friendly work, such as drystone walling, and following less intensive methods.

But now it is rumoured that tight constraints on the latest public spending negotiations may cause ESA status to be shelved. "If it's abandoned it will be a tragedy not only for those farmers and their families but also for the Lake District landscape itself and the 20 million people who visit every year," says Mr Wannop.

On this matter, tourists and farmers have common cause, but, even though tourism has provided a valuable means of diversification for farming families, it has also imposed strains on the rural fabric, including its housing stock.

In the Lake District national park, where strict planning controls inhibit new building, demand for holiday homes, second homes and retirement properties has priced many modestly-paid locals out of the market.

A recent survey by the RDC and South Lakeland District Council revealed that nine out of 10 people on the council's housing list could not afford to buy a home locally. Fewer than 10 per cent had an annual income of £16,000, yet in South Lakeland a three-bedroomed semi in need of modernisation could be marketed for £135,000, said the report. Rents, too, were affected by tourism.

A contraction of general shopping facilities, in favour of tourist-related enterprises, was also recorded in a survey last year by Voluntary Action Cumbria. And like many rural communities, Cumbria's countrydwellers are also tussling with problems of scant public transport, and of maintaining vital rural facilities like local schools and village halls.

This, though, is only part of the story. For many Cumbrians, farming exerts a pull which goes far beyond economics. Young Brook Wannop may yet, in 20 or so years' time, be climbing into his own, fullsize tractor.

Stewart Dalby visits Carlisle, the Cumbrian capital

Cheap costs, high living

CARLISLE, THE county headquarters of Cumbria, was an important staging post for the Romans and the Normans, and then a strategic pawn in the wars between Scotland and England before Edward I finally won it back for England in the 13th century. It was from Market Cross, which still stands in the city centre, that Bonnie Prince Charlie proclaimed his father King of England in 1745.

Despite its pivotal and turbulent history, its geographical position has told against it in recent times. It sits in the middle of a sparsely populated hinterland and roads of varying quality put it a long way in terms of time from Barrow, Cumbria's second largest urban concentration.

In the past decade, however, Carlisle has flourished and grown as a regional centre. During the 1980s there was a small but steady increase in population to the present 107,000. A population of 500,000 lies within 60 minutes driving.

Throughout the 1980s unemployment ran below the national average and at 8 per cent currently, remains so. In 1989 Henley Centre for Forecasting predicted growth in the 1990s, although recession will not have helped the city achieve it.

Mr Roger Bodden spokesman for the Carlisle City Council says: "Carlisle comes as a surprise to many visiting businessmen. They arrive expecting to find the mythical north, a land of industrial decay, an unemployment blackspot with all the attendant problems. What they find is a buoyant economy in an attractive historic city."

The reasons are twofold. First, there is a diversity of manufacturing which has largely survived the two recessions of the past decade, albeit contracting in some cases. Second, Carlisle has developed service industries, particularly retailing and tourism.

The two largest private sector companies are in food processing. Cavaghan and Gray is best known for supplying quiche and recipe dishes to Marks and Spencer. United Biscuits Carlisle paint is famous for Carr's water biscuits among other things.

Cavaghan and Gray has reduced the numbers it employs to around 1,700, but Mr Howard Sims, the chief executive, says this is because of productivity gains. Other large employers include Pirelli and CMB Promotional Packaging, formerly Metal Box.

There is also Eddie Stobart, a large private distribution company. These companies provide a diverse, reasonably safe, employment base in manufacturing. Employment in manufacturing is just below 24 per cent of the workforce, about the national average.

The service sector has seen most employment growth. The city council has promoted retailing, supporting development of the Lanes shopping precinct in 1985 and the refurbishment of the Victorian covered market in 1991. The sector now employs 16 per cent of the workforce.

By 1990 Carlisle had just under 2m sq ft of retailing space, much of it built in the late 1970s and 1980s. Of this, nearly 900,000 sq ft is devoted to consumer durables and 509,000 sq ft to convenience goods.

The amount devoted to consumer goods is significant, since shoppers would otherwise have to go to Newcastle. As a retail centre for Cumbria and the Scottish borders, Carlisle benefits from the M6 extension nearly into the city in the 1970s. It also helps that people generally in the region have lower mortgage commitments than in the south of England?

A city council survey found Carlisle the 20th cheapest place in which to live of 110 UK towns. It also found that an average Cumbrian family can maintain the same standard of living for less than two thirds of the cost of living in the south-east.

Tourism has also grown quickly. Carlisle estimates that between 1987 and 1989 jobs in the tourism industry increased by 80 per cent and now account for 9.5 per cent of the workforce.

To encourage growth, the council recently spent £5m on the Tullie House Museum, which portrays the turbulent history of the borders region. The cathedral and the Norman castle are also being promoted. Outside the city, Hadrian's Wall is nearby and the Lake District is close. The policy seems to be working: Carlisle's number of visitors has risen from tens of thousands in the early 1980s to 300,000 a year now, spending about £30m.

A new development is the establishment by the University of Northumberland, formerly Newcastle Polytechnic, of a Carlisle campus in the heart of the historic city. The first 80 students are now arriving and numbers will rise to 250 next year.

Mr David Beaty of the city planning department expects the campus to bring all kinds of spin-offs. "We will have a student population with purchasing power. Eventually we would hope to keep some graduates in Carlisle," he adds.

There are already a number of large solicitors and accountants in the town and in recent years building societies and banks have established regional or at least sub-regional offices.

To attract more inward investment, the council has identified 64 acres of land for industrial use. The perceived peripherality of Carlisle is an admitted problem and there are worries that there will be no direct rail link with the channel tunnel.

But these weaknesses are offset by the cheapness of the area, in terms of wages and the cost of land.

Opera

'Flute' revived at the ENO

At the Coliseum, John Abulafia has revived Nicholas Hytner's Mozart production with a sure hand. And perhaps an inventive one, too – there are telling bits of business that I had not remembered, and in any case he had to accommodate a new pair of royal principals and a new trio of Ladies. The gist of the original production remains intact: light touch, plenty of unexpected details to refresh jaded appetites, attentive sympathy with the whole unlikely tale.

Neither Bob Crowley's coolly elegant designs nor Nick Chelton's clever lighting have faded by one jot. If Jeremy Sams' translation is too sophisticated to answer very closely to Schikaneder's original text, its knowing charm is nicely apt here. So is the contribution of Nicholas Kraemer, the new conductor, who favours swift, "period"-conscious tempi (almost too swift for his orchestra in the overture) and yet ensures that each of the little epiphanies gets full value.

The current cast is admirably even and unstarry though voice-fanciers will be in no doubt about the stand-out performances. Those were Richard Van Allen's Speaker, soberly, beautifully sung (and enunciated), and the irresistibly fresh and eager Pamina of Gillian Webster, whose sculpted line – really distinguished in her G minor aria – carried no hint of a cut-glass tinkle.

As Sarastro, John Connell managed only ghostly lowest-bass notes: a slight cold, maybe. In middle register he offered commanding warmth and openness, and acted the tetchy sage with a touch of self-satisfied mischief. For the Queen of Night, Nan Christie's once bell-like tone has begun to spread a bit, but her plucky attack on the coloratura heights was exciting – much enhanced by fine, flamboyant histrionics where most Queens are content to stand and deliver. Alan Opie's Papageno is an amiable bear now, full of character but a degree glummer than he used to be.

At the cost of some tight, closed timbre, Paul Nilon's Tamino manages to be staunchly stylish. As the evening goes on, he makes an ever deeper mark. The new Three Ladies are Janice Watson, Susan Bickley and Thérèse Feighan, well matched both musically and dramatically; without any vampish mugging they convey both sexy sparks and comic malevolence. Geoffrey Pogson makes a ripely plummy Monostatos, and Mary Hegarty a tough but fetching Papagena. The Three Boys here (who will alternate with a second trio throughout the run) didn't rise vocally to angelic heights, but they were appealingly concerned and musically secure. Mostly, this *Flute* still gives unalloyed pleasure.

David Murray

In repertory at the English National Opera until November 13; revival sponsored by United Airlines

Tales from Tasso

Patricia Morison visits the Birmingham Poussin exhibition

If the Prime Minister and his colleagues sought balm for their troubled souls this week in Birmingham, they did not have far to go. Just as the EEC cavalcade arrived at Birmingham, an exhibition opened at the city's Art Gallery which includes no less than 15 works by the 17th-century master, Poussin. *Dangerous Liaison: Poussin's "Tancred and Erminia" in Context* brings together some of the best-known and most beautiful masterpieces of Poussin's early career.

The exhibition's creator is Richard Verdi, Director of the Barber Institute, Birmingham University's magnificent art collection which is now re-emerging after many years of obscurity. Verdi was the moving force behind the remarkable Poussin and Cézanne exhibition some years ago in Edinburgh. This further homage to Poussin is a great achievement – not least because paintings from *France, Russia,* and *Canada* have been brought to Birmingham without a penny being found from sponsors.

The starting-point is simple, a reminder of the prominent place that now-forgotten tales of Tasso occupied among the repertoire of sacred and secular themes in 17th-century history painting. The first room is something of a hotchpotch of history painters selected from the two Birmingham collections. It ranges from a neurotically vibrant "Execution of John the Baptist" by Schiavone to "St Andrew Praying Before His Execution" by Carlo Dolci and Jan Steen's convivial scene of Esther denouncing Hamon at King Ahasuerus's dinner-table.

The second room is what really matters. Here we find the two astoundingly beautiful "Tancred and Erminias", one from the Barber and the other from the Hermitage in St Petersburg. They hang next to the first theme Poussin took from Tasso, the famous Dulwich "Rinaldo and Armida". What a heavenly trio of paintings they make! Here, at a glance, are the paintings which will dispel the common view that Poussin is a chillingly cerebral artist whose appeal is strictly to intellectuals.

Underlining this point, to their left hangs an earlier masterpiece of the late 1620s, the Caen "Venus and Adonis". In this painting of melancholy suffused with warm sensuality, a naked goddess kneels in tender solicitude by the beautiful body of her dead lover. Beside this, showing just what a mastery of dramatic effect Poussin had achieved, is the "Deposition of Christ from the Cross" from the Hermitage. It counts as one of the most heart-rending realisations ever painted of this subject, *and for it alone, the trip to* Birmingham is a must.

Here again, albeit pitched in an infinitely more intense and sombre key, is a woman lamenting over the body of a man as the Virgin wrings her hands over Christ as the Evangelist struggles to support his body. A crouching putto leans its cheek against Christ's shin.

Grief, charity, love: these three emotions are evoked once again in the Tancred and Erminia scenes. We may see in them at first sight a mildly erotic but hardly profound scene, just the sort of thing one would expect from Italian opera. But Poussin, for all his roaring, wenching first decade in Rome, was anything but frivolous when it cames to themes of his paintings.

The Tancred and Erminia story appeared in two brief, tender interludes in *Gerusalemme Liberata*, Torquato Tasso's epic about the First Crusade. The poem appeared in 1581 and became a best-seller. Poets, painters and musicians took inspiration from it, readers borrowed the names of its heroes and heroines for their children.

Inspired: 'Tancred and Erminia' by Poussin, belonging to the Barber Institute

Opposite Poussin's two versions hang further Tancreds and Erminias as visualised by Poussin's contemporaries in Rome: Guercino, Pietro da Cortina, and by his admirer, Pier Francesco Mola, the last a ravishingly pretty painting from the Louvre. Mola, imitating Poussin, chose the most dramatic moment of the story.

The noble warrior Tancred is grievously wounded in single combat with the giant Argantes. Enter his squire and the Saracen princess Erminia, his fair captive who loves him but has not a chance because he is pining after her best friend, Clorinda. Erminia renders first aid to her lover but runs out of bandages once she has used her veil.

"But love could other bands, though strange, provide, And pity wept for joy to see that deed..." Erminia sacrifices her crowning joy, her "amber locks"; As read, this comes across a strongly sexual motif, given the ancient symbolism of hair. But Tasso's poem was an explicitly Christian allegory on the triumph of the Church. Erminia's gesture echoes the Magdalene who dried Christ's feet with her hair – Mola brings this out in his version with the little box on the rock, a reminder of the Magdalene's jar of ointment. Pagan Erminia, like the prostitute Magdalene, is a sinner and she, too, will surely be redeemed.

The exhibition shows how in formal terms, Poussin's grouping of the figures in his Tancred and Erminias echoes a *Lamentation* over the dead Christ. Erminia is the Magdalene, and she is also the Virgin im her traditional blue robe. In the Birmingham picture Erminia in her bare shouldered dress is something of a maenad. She saws frenziedly at her hair with Tancred's sword, whereas in the earlier, more tender and beautiful Hermitage version (a point on which Verdi insists) we have no doubt the amber locks will yield to the blade as easily *as silk threads.*

Tasso never actually says what happens to the pair, once Tancred is safely back in camp with his rescuer. Poussin uses *his* putti in the Birmingham picture to hint at the eventual happy outcome. They float *aloft, one garlanded* with presumably nuptial flowers, both armed with the burning arrows of love. Erminia will convert to Christianity and they will be happy together. Charity and self-sacrifice bring their own reward. That, surely, is the deeper reading Poussin intended for his tales from Tasso.

Theatre

Two Gentlemen of Verona and Lermatov's Last Dream

Throughout David Thacker's RSC production of *Two Gentlemen of Verona* at the Barbican – before, during scene-changes, and at the end – there occur classic popular songs from the jazz/swing era. Great songs: "Nice Work if you Can Get it", "And Then My Heart Stood Still," "Blue Moon," "In the Still of the Night" and more. But will not some people in the audience go home thinking that Shakespeare wrote them? Worse, will not some people miss *them if ever they see Two Gents* again? Nobody would claim that this is Shakespeare's best play, and there are passages when his words seem a lot more remote than those of Irving Berlin, Cole Porter *et al.*

But those passages are not frequent. This production (first seen in Stratford 18 months ago) is not one that apologises for the play; it trusts it. *Two Gents* is always light and urbane; at its best, it is also surprisingly touching. So it proves here. It is often strange how, even as the play reminds you of situations that Shakespeare handled so much more marvellously in other plays, you find yourself oddly affected.

At the heart of the action is the amorous perfidy of Proteus, courting first Julia, then Silvia, both with sincere ardour, even though Silvia is *his best friend's girl. He is the male* equivalent of the women in *Cosi fan tutte*, but he is also an embryo Don Giovanni – especially in the balcony scene, where, with Julia overhearing all, he courts Silvia. In this staging, Barry Lynch is a beguiling Proteus – charming, intense, soft and urgent at the same time, almost innocent in his treachery.

Set against his inconstancy are the steadfast affections of Julia and Silvia. As Julia, Claire Holman is rather like a young Judi Dench: the voice half-hoarse, half-creamy, the manner so vital and spontaneous. Josette Bushell-Mingo (who has moved up from the role of Lucetta since Stratford) is a perfect contrast. She has a kind of gravity, elegance and nobility that naturally startle Proteus and make him forget Julia.

The play's more broadly comic scenes, which are really just Shakespearian rotework, work here triumphantly. The dog Crab (played by Woolly), with his lean and dolorous air, comes close to stealing the show. *And, best of all,* that urbane beanpole Guy Henry makes Thurio as vivid as any character onstage. His face is deadpan, his eyelids beat in hilarious bemusement, his voice is a wonderfully humourless and solemn, and he catches exactly the essence of a hangover. The character he plays is just a hollow drone, but here he becomes a joy.

Alastair Macaulay

Alastair Muir

Claire Holman: like a young Judi Dench in Two Gentlemen at the Barbican

The French Symbolist poets were not alone in fighting duels with friends. Mikhail Lermontov, the Russian Romantic, was killed by his friend Martynov on a cool July morning in 1841. Lermontov goaded his opponent; and light mirth ended in grievous wounds.

Harry Meacher's complex, inventive biographic drama, *Lermontov's Last Dream* for Pilgrim Productions at the Pentameters Theatre, starts on that duelling field, Lermontov wounded, dreaming of his past life. The whiff of Czarist sulphur hangs around Lermontov's death, but without conspiracy. It amounted to suicide at arm's length, boredom of life ended with a little help from his friends.

Lermontov's 27 years in Moscow and the Caucasus were, like the lives of English counterparts Byron and Keats, a Romantic way of death. He wrote poetry, but achieved fame for creating Russia's Byronic man Perchorin, *A Hero of Our Time* in his only novel, written in 1840. The message: "We survive on novelty, so much less demanding than commitment."

This play has Lermontov haunted by his own creations, controlling and controlled by them. Like the novel, *Lermontov's Dream* presents a Byronic journey of easy oaths and easier women; it knows that happiness *looks* boring and virtue unappealing. Lermontov becomes the ego and the id of Perchorin, sharing his creation's lines by entering the pattern of lies and shocks modeled on Perchorin's misdeeds.

In Lermontov's world, all is blank hypocrisy, passion a shallow concern, and social rules only for those who care. The characters put the hard questions: "Lermontov, why have I never been a slave to the women I have loved?" Learning about the world he has created, Lermontov faces himself.

In keeping with Lermontov's writing, the play avoids intimacy with the characters. One of Perchorin's *lovers, Vera, declares, "I go from* guilt to ecstasy in a single moment; it's madness" but she never shows it happening. The wrecking of wreckable lives and the universal duplicity of feeling throughout are told rather than shown.

The play needs more space, more brooding, and less freneticism. However, this makes bold, inventive theatre, with a narrative that drives the action forward. A simple black and red set, black cossack costumes for the men and wispy chiffon for the women create a visual unity. The acting of Harry Meacher (who co-directs with Kit Gerould) and David Middleton as Lermontov and Perchorin is a swift, sure interchange; elsewhere, Paul Arlington, Gail Macfarlane and Judi Bowker are convincing as doctor, society woman and lover.

Lermontov's Dream succeeds in conveying the bleak vision that made him a pattern for Chekhov's Solyony (*The Three Sisters*). He had written in 1838: "Knowing too much, lost in equivocation, our generation is growing old in idleness." How could he bear to live longer?

Andrew St George

The Pentameters Theatre, Hampstead, until 1 November (071 435 3648)

Ballet/Clement Crisp

Dance Umbrella

The evenings grow chill, and post-modern dancers huddle together for shelter under the Dance Umbrella as autumn takes hold. This year's jamboree began on Wednesday night at Riverside Studios with two recent works from Siobhan Davies performed by her troupe. They are planned, I suppose, as contrasting aspects of her creativity. *Make-Make* is dark, constrained, and something of a bore. But *White Bird Featherless* is light-filled, as teasing as one might expect from a piece whose title is owed to an 18th century riddle, and wonderfully bold and inventive in movement.

Make-Make (and what does *that* mean?) begins glumly with the sound of a storm, rain pouring down a huge plastic sheet at the back of the dance area, a layered babble of ethnic keening as sound-track, and figures looming in the gloaming. We could be in any English holiday resort out of season. Where we are, in fact, is an "island" conceived by Miss Davies as a pen in which to confine her six dancers. They make dull gestures and awkward mime. Small cells of movement are generated, and build to a crescendo before the dance returns to its original anxious signallings. There is one intriguing duet, but the choreography does not flatter the dancers – they look costive, and less than interesting. It was Sean Feldman who made the piece bearable for me. His style is mercurial, quick-muscled, admirably varied and vivid in dynamics. This bright gleam apart, the rain fell incessantly: *il pleure dans mon coeur comme il pleut sur la ville* is the message.

Happily, *White Bird Featherless* showed us Siobhan Davies at her very best. The piece is visually ravishing. A black setting has three looking glasses on either side of the dance area. Peter Mumford casts a chequer-board of light on to the floor. Antony Macdonald dresses the six members of the cast in handsome *white unisex outfits (trousers; flimsy* shirts; armoured-looking jerkins). The properties are cheerfully coloured wooden apples, pears, pineapples, which feature in incidents that tease, intrigue, but never obtrude into the clear fabric of the dance. *Movement is inspired and enriched* – Siobhan Davies needs good music for her dances – by Gerald Barry's strong score for two pianos and countertenor.

The white costuming, the shifting squares of light, encourage a first impression of luminous, radiant action. But it is the dance itself, at times buoyant and resourceful in mingling solos and ensembles, then contemplative and questioning, which has the brightest glow. In its dynamic variety, in its freshness of impetus, it shows Davies working at the very top of her considerable form: caught up with ideas of movement itself, and eschewing any introversion, it thrills the viewer.

The cast looked fine, with Gill Clark and Deborah Saxon having inspired some rewarding incidents. But it was Mr Feldman, a newcomer to the troupe, who again held the eye, notably in a solo that celebrated his light, sweeping jump and the speed and richness of his response to a pose or a quick change of direction in step. It is dancing of great distinction in *a work no less excellent. Let* it please be filmed.

The Siobhan Davies Dance Company continues at Riverside Studios until Oct. 17; thereafter the company visits Sheffield, Cambridge, Newcastle upon Tyne.

INTERNATIONAL ARTS GUIDE

With few exceptions, Italy's opera houses are sticking to established favourites for the 1992-3 season. Turin's Teatro Regio, which opened last night with La bohème, has only one non-Italian opera in its programme – Massenet's Esclarmonde (Nov 17). Genoa's Teatro Carlo Felice, which opens next Thursday with Simon Boccanegra, is also playing safe: the remaining programme consists of two popular Verdi works, Puccini's Turandot, Cav and Pag and the Bolshoy production of Prince Igor. The only rarity is Catalani's Loreley next June.

Rome's Teatro dell'Opera is due to re-open with Lucia di Lammermoor on Dec 22 (with Mariella Devia and Chris Merritt), followed by Bizet's Pearl Fishers conducted by Michel Plasson, Die Fledermaus, Queen of Spades and two popular Verdi operas. Venice is currently showing Wozzeck (final performances tomorrow, next Tues and Thurs), followed by Semiramide (Nov 7).

Bologna's Teatro Communale ***reaffirms its Wagner credentials*** **by opening the season with Götterdämmerung (Nov 28), staged by Pier'Alli and conducted by Riccardo Chailly. Graham Vick will stage L'Incoronazione di Poppea in January, and Elijah Moshinsky's Covent Garden production of Simon Boccanegra will be shown in February. The season also includes Adriana Lecouvreur with Mirella Freni and a Stravinsky double-bill.**

La Scala Milan opens with ***a new Zeffirelli/Muti production*** **of Don Carlo starring Luciano Pavarotti (Dec 7), followed by Bellini's Beatrice di Tenda with Cecilia Gasdia, a revival of the Strehler production of Don Giovanni, Zeffirelli's Pagliacci production with Pavarotti as Canio, Giordano's Fedora with Freni and Domingo, a Ronconi production of Oberon, Falstaff (Muti/Strehler) and Tancredi.**

EXHIBITIONS GUIDE

AMSTERDAM

Rijksmuseum Meeting of Masterpieces: Lodovico Carracci's The Vision of St Francis and Titian's Madonna and Child with John the Baptist and Catherine. Ends Nov 8. Also Drawings from the Age of Bruegel: the Frits Lugt Collection. Ends Nov 8. Closed Mon

Stedelijk Museum Sigmar Polke (b1941): 30 paintings and installations by the German pluriform artist from the years 1964-86. Ends Nov 29. Also Peter *Halley: recent work. Ends Nov* 1. Daily

LAUSANNE

Fondation de l'Hermitage From David to Picasso: 200 paintings, drawings and sculptures covering 150 years, selected from the rich collection of the Musée de Grenoble. Among artists represented are Matisse, Gauguin, Modigliani, Renoir, Corot, Delacroix, Magritte and Ernst. Ends March 21. Closed Mon

Musée d'Art Contemporain Roy *Lichtenstein: 70* works by one of the founders of the pop art movement, illustrating the different stages in his work over the past 30 years. Ends Jan 31. Daily

Musée Cantonal des Beaux-Arts Adolphe Appia (1862-1928): drawings by the Geneva-born artist and stage designer. Ends Nov 1. Closed Mon

LONDON

Tate Gallery Grand Manner Portraiture in Britain from Van Dyck to Augustus John: 60 paintings demonstrating the scope and visual splendour of English portraiture at its most ambitious, including work by Reynolds, Gainsborough and Sargent. Ends Jan 10. Also The Painted Nude. Ends Dec 27. Turner's Use of Perspective. Ends Jan 31. Daily

Royal Academy of Arts Sacred Art of Tibet. Ends Dec 13. Daily

Hayward Gallery Art of Ancient Mexico. Ends Dec 6. Also Bridget Riley: paintings 1982-92. Ends Dec 6. Daily

British Museum Ukiyo-e *paintings: images of bawdy* society in feudal Japan. Ends Nov 29. Daily

Courtauld Institute Kokoschka: prints, illustrated books and drawings. Ends Oct 28. Daily

Whitechapel Art Gallery Juan Gris retrospective. Ends Nov 29. Closed Mon

MANCHESTER

Whitworth Art Gallery Avant-Garde British Printmaking 1914-60: 80 of the British Museum's most important and innovative prints produced this *century. Ends Dec 5. Also into* the 60s: a look at how painting and sculpture reflected the radical changes in British society in the 1960s. Ends Oct 26. Closed Sun

City Art Gallery Innocence and Experience: Images of Children in British Art. More than 60 works from the past 400 years, including Van Dyck's Five Children of Charles I, James Cowie's Falling Leaves and some more sinister 20th century images. Ends Nov 15. Daily

MUNICH

Kunsthalle der Hypo-Kulturstiftung Expressionists: watercolours, drawings and prints by members of the Brücke. Ends Nov 1. Daily

Lenbachhaus Gabriele Münter, prominent female artist in early 20th century Germany. Ends Nov 1. Closed Mon

Neue Pinakothek Townscapes from St Petersburg. Ends Nov 27. Closed Mon

Villa Stuck Thomas Mann and Egypt: an exhibition of ancient Egyptian objects and portraits, *together with original documents* illustrating Mann's interest in Egyptology and its influence on his novel Joseph and His Brothers. Ends Jan 10. Closed Mon

NEW YORK

Guggenheim Museum Robert Rauschenberg, the early 1950s: 100 formerly under-appreciated pieces from his formative years, including abstract expressionist paintings, collages and early conceptual pieces. Ends Jan. Also the Great Utopia: *the Russian and Soviet Avant-Garde* 1915-32. Ends Dec 15. The SoHo site has the set of murals which Chagall painted for Moscow's Jewish Theatre in 1920. Ends Jan 17. The main museum is closed on Thurs, the SoHo site on Tues

Museum of Modern Art Matisse. Ends Jan 12. Closed Wed (call Ticketmaster 212-307 4545)

Metropolitan Museum of Art Ribera: 400th anniversary retrospective. Ends Nov 29. René Magritte: 150 works by the Belgian surrealist. Ends Nov 22. Also Loma Negra, a Peruvian Lord's Tomb: 125 funerary objects and adornments, including nose and ear ornaments of gold and silver, headdresses, masks and necklaces of gilt or silvered copper, made in the third century by the Moche people of Peru. Ends July 4. Closed Mon

IBM Gallery Christopher Columbus and the Spanish Exloration of the Indies: 70 objects from public and private *collections in Spain, including documents, maps and scientific* instruments. Ends Nov 7. Closed Sun and Mon

PARIS

Louvre Drawings by Liotard (1702-89): 100 works by the Swiss pastellist who ranks as one of the most sensitive if least *readily classifiable of rococo* artists. Ends Dec 14. Closed Tues (Pavilion de Flore)

Grand Palais Picasso et les Choses: 150 still-life oil paintings, collages, gouaches and sculptures from all periods *in Picasso's career. Ends Dec* 28. Also The Etruscans and Europe. Ends Dec 14. Closed Tues, late opening Wed (ave du General Eisenhower)

ROTTERDAM

Museum Boymans-van Beuningen *Impressionism: an* exhibition drawn from the museum's own rich collection of French Impressionists. Ends Nov 29. Closed Mon

STOCKHOLM

Nationalmuseum Rembrandt and His Age: 190 paintings by the Dutch master and his large circle of pupils. Ends Jan 8. Closed Mon

TILBURG

De Pont Inaugural exhibition of the De Pont Foundation for Contemporary Art, with 100 works by 20 artists from the Netherlands and abroad, including Richard Long, Rosemarie Trockel, Anish Kapoor, Robert Ryman and Richard Serra. Ends Jan 31. Closed Mon

WASHINGTON

Corcoran Gallery Cavaliers and Cardinals: 19th century French anecdotal paintings. The exhibition focuses on the work of Jean Louis Ernest Meissonier and Jehan-Georges Vibert, and includes scenes of prelates' foibles and military history which *were immensely popular in the* 19th century. Ends Nov 8. Also Archibald Motley: 72 paintings chronicling the life of African Americans in Chicago during the 1920s and 1930s. Ends Jan 3. Closed Mon

National Museum of American Art Romare Bearden 1940-87: paintings and collages illustrating the culture of African Americans. Ends Jan 3. Daily

Textile Museum Textiles and Thai experience in south-east Asia: 100 pieces illustrating how *textiles function* for the individual in religion and in the service of the monarchy. Ends Jan 3. Daily

National Gallery of Art Stieglitz in the Darkroom: 75 prints illustrating the art of American *photographer Alfred Stieglitz* (1864-1946). Ends Feb 14. Also Art of the American Indian Frontier. Ends Jan 24. Daily

Arthur M Sackler Gallery Ancient Japan: an exhibition of 250 objects from the early cultures *of Japan.* Ends Nov 1. Daily

ZURICH

Kunsthaus Gustav Klimt retrospective. Ends Dec 13. Closed Mon

THE BIRMINGHAM SUMMIT: THREE PERSONAL VIEWS

The hidden agenda

By Carlo Ripa di Meana

The European Community, in spite of the peace, stability and prosperity which it has given to all of its members, is repeatedly called into question. The special European Council meeting in Birmingham today will have as its main theme the principle of subsidiarity. According to this principle, decisions must be taken as closely as possible to the citizen. The EC should act only when individual and separate action is not sufficient.

The principle is one which has been followed for years in the area of EC legislation that I know best – the environment – and rational and ordered discussion of it is something that the European Commission should, and does, welcome. But there are signs that the subsidiarity argument is being used as a smoke screen for another, more sinister, purpose.

In France, Germany, Britain and elsewhere political figures such as President François Mitterrand, Chancellor Helmut Kohl and Prime Minister John Major are rounding on the Commission, in public at least, in their search for a scapegoat. They are seeking to blame the Commission for the apparent gulf that has appeared, in virtually all member states of the EC, between the elected politicians and their electorates. The real aim is to weaken the Commission and thus slow moves towards the union to which they all profess to aspire.

The critics' aim is to weaken the Commission and curb unity moves

Of course, these attacks are nothing new. The Commission is used to accusations of being a bloated, centralised, power-hungry bureaucracy. These tend to occur especially at times of economic difficulty or recession, as is now the case.

A dispassionate examination of the facts shows that such an argument does not hold water.

The Commission employs some 14,000 civil servants, fewer than the city of Birmingham or Edinburgh, both of which are hosting European Council meetings this year. Many of the Commission's staff are employed in the linguistic service as translators and interpreters.

Moreover, the Commission does not have direct legislative powers. European laws are not adopted by the Commission but by the Council of Ministers which is formed of the ministers of the democratically elected governments of the member states.

The Commission does have the exclusive right to *propose* legislation but that power, important as it is, must be put in context. In 1991, only 6 per cent, or 30 of the 535 proposals, were put forward by the Commission on its own initiative; the others were the result of decisions already taken or requests from ministers. This is hardly the conduct of an overweening bureaucracy drunk with power.

Nor is that image of the Commission confirmed if we look at the way in which it drafts its proposals. In the first place large numbers of experts from national civil services on detachment to the Commission work side by side with permanent EC officials on the drafting of proposals. At each stage of the preparation drafts are discussed, not only with the sectors concerned (industry, consumers and so on), but also with working groups composed of experts from all the national civil services.

The politicians seeking to denigrate the Commission today know this, but prefer to indulge in these tactics rather than explain the benefits which for more than 30 years the EC has brought to its member states.

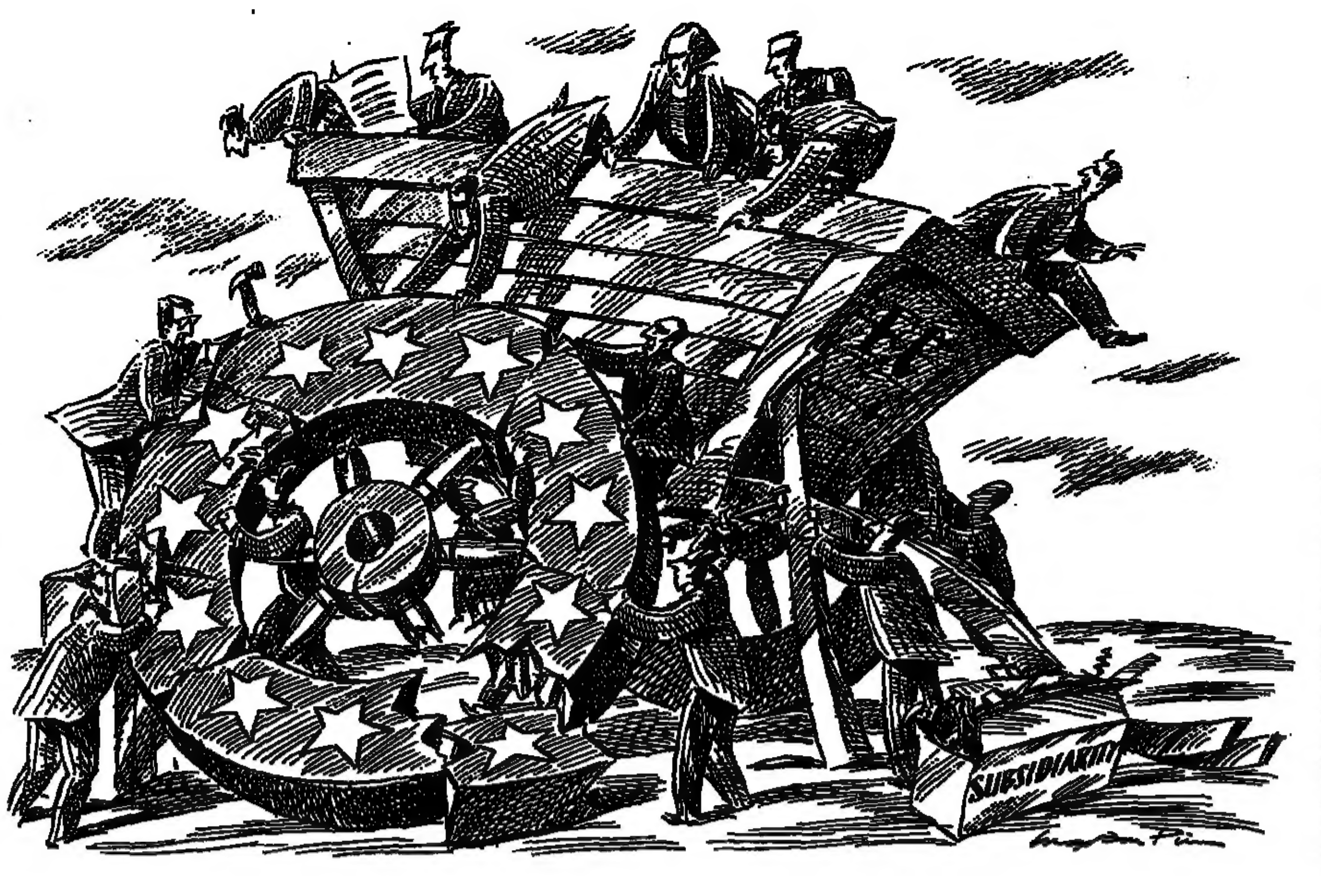
They know that, without the Commission, an EC made up of states so diverse in size, in history and in culture would have been impossible. They know that an independent Commission guarantees the necessary impartiality between the states both in proposed legislation and in the application thereof. They know that the one thing that the Maastricht treaty does not do is to increase the powers of the Commission. The democratically elected parliament and the council of elected ministers alone emerge with enhanced powers.

Why then do the critics persist? Are they afraid of the truth? Or are they trying to hide their own weaknesses resulting from too long a period in power or from party or coalition problems?

Europe's people are sending a clear message to their political leaders but, as yet, they are not receiving a clear reply. Of course, the EC must be more open, more accountable – but the true nature and benefits of the EC must be painstakingly explained to its citizens.

That is what the politicians should be doing, rather than reacting with ill-judged and false accusations, with which they hope to pacify those fanatics who would seek to haul Europe back into the past and destroy the achievements of the past 40 years.

The author is Italy's minister for the environment.



Where are our Madisons?

By Larry Siedentop

It is easy to feel dismay about the Maastricht debate. For two issues – national sovereignty and representative government – have become hopelessly embroiled and must be separated if we are to think clearly about the pros and cons of the treaty.

Representative government can exist when sovereign rights are united (as in the UK) or when they are divided (as in US federalism). But neither form of the state guarantees representative government.

The middle ground of British opinion – including both those who reluctantly feel it is best to ratify Maastricht and those who unhappily conclude it should be rejected – is chiefly concerned with the latter issue. Those who reluctantly support ratification fear that they may be sacrificing self-government to the development of the Community, while those who oppose ratification fear that their concern with self-government may be misunderstood as blind nationalism, as turning away from Europe on the simplistic ground of preserving national sovereignty. And both sections of middling opinion are right to fear what they fear.

The future of representative government in a more unified Europe ought now to be the central issue. Until the 18th century it was an axiom of European political thought that the larger the political unit, the more likely it was to be governed despotically. Only with the help, first of the British model of government and then of American federalism, was that axiom partially revised by liberal constitutional theory. But that does not mean that the causes which had previously led thinkers to take such a dim view of the prospects of self-government outside small communities ceased to operate.

Yet in recent decades politicians have become almost cavalier about the political or constitutional dimension of the European Community. Take, for example, the casual way in which the population of eastern Germany was absorbed. For 60 years some 17m people there had been subject to despotic government, first of the right and then of the left. Can anyone doubt that habits and attitudes formed under such regimes survive, or that an education in representative government and constitutional issues is required to root out authoritarian attitudes? Rostock provides a warning.

It is shaming for Europe that when its leaders discuss the future of the EC they cannot match the vision of those who drafted the US Constitution

Sadly, French leaders have concluded that the best response is to "bind" Germany to the rest of Europe by imposing a centralised decision-making authority which resembles nothing so much as the French state. Doubtless the French hope that such a structure will preserve their *de facto* domination of the Community, despite the increased size and economic power of Germany. It was the urgency of this French design which led to the Maastricht treaty, which does not begin to address constitutional issues squarely.

Such issues were scarcely identified, let alone addressed, by European leaders at Maastricht. Why not? Since the second world war, the language of economics has driven out the language of politics and particularly the language of constitutionalism. Yet the latter was the great achievement of liberal thought in the 18th and 19th century, and it was directed especially at one problem – how authority and power can be dispersed in a political system so that tyranny is prevented, without making efficient and just government impossible.

The pursuit of economic integration in Europe has resulted in a curious outcome. A Community inspired by liberal democratic principles has increasingly acted on quasi-Marxist assumptions – assuming that when economic progress had been achieved, other institutional improvements would follow inevitably or as a matter of course. But that is a form of economic determinism which has been discredited intellectually and practically.

Nothing reflects this dominance of economic over political language more than the hasty, last-minute assertion of the "subsidiarity" principle. For what does subsidiarity mean? Is it a political principle – in which case it acts merely as camouflage for a free-for-all in which the outcome is by definition compatible with the subsidiarity principle, since there are no clear criteria governing the distribution of power? Or is it a constitutional and juridical principle?

But if it is the latter, then subsidiarity implies a movement towards a federal Europe, with an agency – presumably the European Court – being vested with the right to settle conflicts of jurisdiction and create spheres of authority. And if so, what are the terms of reference for the Court, what normative framework will guide its decisions and serve to legitimate them? And are those terms adequate?

It was the thrust of liberal constitutional theory in the 18th and 19th centuries to consider and deepen our understanding of such questions. Its most celebrated principles – the separation of powers, entrenched rights and forms of federalism – were means to that end. To suppose that a quick tour around European capitals to reach a consensus on "how subsidiarity works" is now enough represents an intellectual regression which could have dreadful practical consequences in the long run.

It is shaming for Europe in the 1990s that when its leaders meet to discuss the shape of the future EC they do not begin to match the vision of those who drafted the US Constitution in the late 1780s. Where are our Madisons, Hamiltons and Jeffersons? If the language in which the EC identifies and creates itself becomes largely economic, then the prospects for self-government in Europe are grim.

The author is a fellow in politics at Keble College, Oxford.

No time to jump ship

By Edzard Reuter

The project for European integration has ground to a halt. That is the sober view we must take of the impasse on the Maastricht treaty.

No one regrets this state of affairs more than Daimler-Benz, a German company with up to one-fifth of its turnover in fellow European Community states. We, along with 340m fellow Europeans, were looking forward to the creation of a single, tariff-free European market on January 1 1993. But now, less then three months before that historic date, one of the decisive conditions for a prosperous economic area – the creation of a single European currency – is on the verge of failure. These and other pan-European aims are now in danger of drowning in a sea of Euro-pessimism.

For Daimler-Benz, the economic integration of nations in Europe has always been the best guarantor of peace. Yet are the destructive effects of Black Wednesday, when the UK was forced out of the European exchange rate mechanism, to be allowed to render obsolete long-standing enthusiasm for European integration? Admittedly the Danes' rejection of Maastricht and France's grudging support for it are a signal that their ideal of a single Europe is not the one to be found in the Maastricht treaty.

A 'little Europe on the Rhine' would be the worst of all possible options

Throughout Europe, the treaty's shortcomings, which politicians have ignored for so long, are being brought to the surface. The result is that jumping off the Euro-train is beginning to sound increasingly plausible. But this should be resisted. The only alternative is a futile go-it-alone policy among individual nations.

Those who criticise the ERM, for instance, seem to ignore the fact that for 12 years before Black Wednesday the ERM rewarded its members with stable exchange rates, resulting in economic convergence and lower inflation.

The fact that the ERM partially foundered on September 16 is not to be laid at the door of the mechanism itself. The onerous financial costs of German unification, for instance, placed enormous strain on the ERM. In any event, co-ordinated exchange rates can only work if they are adapted to economic realities.

The temporary withdrawal of sterling and the lira from the ERM has dealt European integration a massive blow. And yet UK Prime Minister John Major's stated intention of installing Britain at the heart of Europe has long since become economic reality; 60 per cent of UK foreign trade takes place within the EC.

Daimler-Benz employs about 2,000 people in the UK. Annual turnover totals DM3.2bn (£1.28bn). Daimler-Benz shares are listed on the London Stock Exchange – the most international of all stock exchanges. Against this backdrop, tension between European partners does not shake our resolve. The way we see it, we have long since become a partner to the British economy. There is no better illustration of this than the co-operation between Daimler-Benz and BAe in the Airbus consortium.

But more important for Europe than sterling's re-entry into the ERM is to have Britain as a political ally in the drive towards European unity. Many Britons still regard Europe as uncharted political territory. But with their self-confidence as a former global power, the British are a model for the continent. Many self-appointed Euro-strategists have a lot to learn from the British view that Europe must play its part in international crisis management. British advocacy of the principle of subsidiarity must remain a counterweight to the centralising magnet of the Brussels bureaucracy.

The other 11 EC members could have saved themselves several disappointments if they had debated the repercussions of monetary and political convergence with the same vehemence as did the British. Their naive visions of harmony have been rudely shattered. It would be fatal to attempt to overcome momentary weakness by a wait-and-see policy, just as fatal as the sceptics' proposal to use the European crisis as a reason to abandon ship.

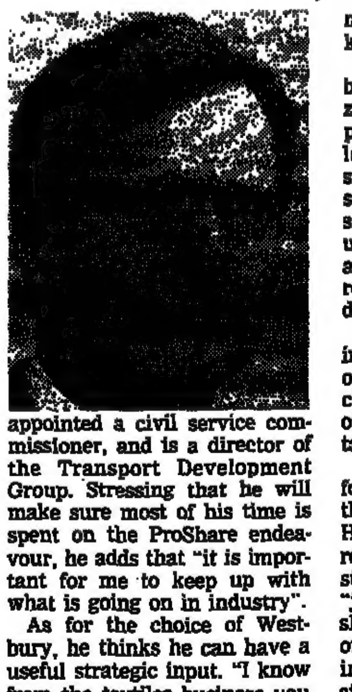
A "little Europe on the Rhine", in which half a dozen EC members hare off alone, would be the worst option, for the stability of this inner core would be gained at the expense of those who remain outside.

The UK, current holder of the European presidency, faces a task of historic proportions. The irrational flight from shared responsibility has to be stopped by offering constructive reform proposals. Whitehall has shown that faded illusions can only be replaced by concepts of realistic substance. It is in this spirit that the EC partners must work to develop their blueprint. Now is the time to shape the future if we are to win the day. Otherwise we shall have to admit defeat.

The author is chairman of Daimler-Benz.

PEOPLE

Splitting the roles at Westbury



In the same week as launching the ProShare campaign for wider share ownership, Geoffrey Maddrell has accepted an invitation to become non-executive chairman of Westbury. The Cheltenham-based housebuilder is also bringing in John Bennett, previously finance director of CHB Group, as finance director in advance of the retirement of Barrie Hall.

Richard Fraser had combined the roles of chairman and chief executive for the past three years, although Westbury, a 1985 management buy-out company, had had a non-executive chairman for a spell after its stock market flotation in 1986.

Fraser had, however, indicated in May that he wished to bring in an outside chairman – partly a reflection of shareholders' general preference for splitting the roles, partly because market conditions demanded more of his time.

Maddrell, 56, ex-Tootal boss, and now chief executive of ProShare, has recently been appointed a civil service commissioner, and is a director of the Transport Development Group. Stressing that he will make sure most of his time is spent on the ProShare endeavour, he adds that "it is important for me to keep up with what is going on in industry".

As for the choice of Westbury, he thinks he can have a useful strategic input. "I know from the textiles business you can be very successful in tough markets if you stick to your knitting."

Bennett, 44, who had also been on the main board of Beazer, left in July. He had been preparing the flotation of CHB last autumn when Hanson snapped up Beazer. Hall, 57, says he has known Bennett for several years, though was unaware he was looking for another job until Bennett replied to a newspaper advert describing the opening.

Bennett takes up his position in November – but Hall stays on until the end of the financial year next February in his other roles of company secretary and IT director.

Hall has been with Westbury for some 13 years – and says the MBO was his brainchild. He had intended to take early retirement at 55, but at that stage the housing market had "just started on the downhill slope. Now I can put my hand on my heart and say I am leaving a firm that has a very strong balance sheet and is operating profitably."

Bodies politic

■ Michael Bromwich, CIMA Professor of Accounting and Financial Management at the London School of Economics and a past president of the Chartered Institute of Management Accountants, has been appointed a member of the Monopolies and Mergers Commission when it considers cases in the water industry.

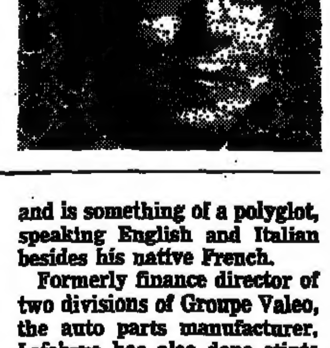
■ Nick Smith, sales and marketing director of Viscount Catering, has been appointed president of CATERING MANAGERS ASSOCIATION OF GREAT BRITAIN.

■ Rosemary Thorne, finance director of J Sainsbury, has been appointed honorary treasurer of the board of trustees of The PRINCE'S YOUTH BUSINESS TRUST; Patricia Hodgson, head of the BBC's policy and planning unit, has been appointed a trustee.

■ Sir Anthony Tennant, chairman of Guinness, has been appointed chairman of the PRIORITIES BOARD for Research and Development in Agriculture and Food.

■ John Parnaby, md of Lucas Applied Technology, has been appointed a member of the LINK Steering Group, the government-wide initiative for supporting collaborative R&D between UK industry and the research base.

■ Yoshitoki Chino (below), honorary chairman of Daiwa Securities, and who has played a formative role in the creation of the Daiwa Anglo-Japanese Foundation, has been made an honorary Knight Commander of the Most Excellent Order of the British Empire.



Electronic switches

■ Lindsay Kennedy, formerly director of Comshare's US VAR channel operation, has been appointed UK md of TELEPARTNER INTERNATIONAL.

■ John Ferguson, formerly manager of NCR's UK product support centre, has been appointed divisional director, systems services.

■ Vincent De Gennaro, formerly sales and marketing director for Sybase Software UK, has been appointed md of SYBASE UK Ltd.

■ Matthew Wallis has been appointed UK general manager of MOTOROLA COMPUTER GROUP; he moves from Pyramid Technology.

■ Archie Thomas, formerly president of Altos Computer in Europe, has been appointed vice-president for European operations for WALL DATA.

■ Alan Barr, formerly sales director of General DataComm, has been appointed sale director, UK and Ireland for MOTOROLA CODEX.

■ Richard Bridge has been appointed director of product development for Modern Security Systems.

■ Chris Brooker, formerly systems director Europe of Unilever's Elizabeth Arden division, has been appointed UK systems director of NOBLE LOWNDES.

Aegis, the media buying company which has recently gone through a number of upheavals, has finally got a new finance director – Michel Lefebvre – six months after the previous incumbent, Charles Stern, left to join United Newspapers.

The interregnum has witnessed some of Aegis's darkest hours – the enforced departure of its chairman and chief executive, Peter Scott, a £20m rights issue which failed to interest the City, and a share price which has nosedived.

Lefebvre, 45, who will join Aegis's board, will take up his new post on November 1. He holds degrees in civil engineering, and law and economics and is something of a polyglot, speaking English and Italian besides his native French.

Formerly finance director of two divisions of Groupe Valeo, the auto parts manufacturer, Lefebvre has also done stints with Olivetti, Bendix and CII-Honeywell Bull.

He joins Aegis at an interesting stage of its development. Aegis has just relocated the majority of its managerial functions from London to Paris, where he will be based. One of Lefebvre's main tasks will be to merge the financial management and reporting of Aegis, the holding company, with those of the operating companies in the Carat network throughout Europe.

FINANCIAL TIMES

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Friday October 16 1992

A constitution is required

TODAY'S EUROPEAN summit was convened by Mr John Major with a dual purpose: to consider "*shortcomings*" in the European monetary system, and to respond to the concerns shown by electorates about the pace of European integration.

Mr Major was soon dissuaded from tabling serious reform of the ERM, on the grounds that it might give markets the idea that a currency realignment was on the agenda. He still intends to have a post-mortem on last month's crisis, *but this will not be* "a detailed operational discussion": at most it will come to "some procedural conclusions".

The main business, therefore, *will be responding to public opinion*: clearly something that needs doing. Even now it is not certain that the EC's leaders have taken the full measure of the crisis of confidence the Community confronts. Much of what has been said in the run-up *to the summit* smacks more of cosmetic presentation than of a serious rethink.

To some extent that is inevitable. The 12 governments are rightly unwilling to tear up the Maastricht treaty and start again *from scratch. A text agreed with* so much effort cannot now be jettisoned without a great risk of torpedoing the entire European enterprise. The most important task that Europe's leaders have at this summit is to prove that they *are still united and determined to* move forward together. All are committed to Maastricht, and if they were now to abandon that commitment they would not soon agree on anything else to put in its place. The message received by the world would be that the EC is falling apart.

Therefore the commitment has to be reaffirmed. Those who have ratified must stand by the judgment of their peoples or parliaments. Those who have not yet ratified must pledge their best efforts to secure ratification without further delay. The Danish government must spell out clearly what it thinks it needs to get the June verdict reversed, and the other 11 must do their best to supply it.

Major's problem

Whether the Danes can truly conceive a set of sidebars to the Maastricht treaty which do not require a new ratification process is open to doubt. If they cannot, their bluff may have to be called. Polls also show a large majority of Danes strongly attached to the EC as it stands. If invited to vote again on a text which, this time, has been ratified by all their partners, and is accompanied by one or more solemn declarations intended to soothe their main anxieties, they may well prefer to come on board. On the one hand, the debate in the other member states should have convinced them that they will not be alone in any future battles against excessive centralisation; on the other, *they would know that by voting* No a second time they run a real risk of the others deciding to go ahead without them.

In other words, the "Danish problem" is not really a Danish problem. *It is shorthand for a* problem of European public opinion in general, and perhaps British public opinion in particular. Indeed, many of Mr Major's guests in Birmingham believe that the real purpose of the meeting is to *save his political skin. Luckily for* him, they regard that as something worth doing. He may not be perfect in their eyes, but he has now staked his future on ratifying Maastricht and they do not want him to fall.

What Mr Major apparently thinks he needs from this summit is an agreed statement on subsidiarity. Because he thinks he needs it, he will probably get it, though *it is unlikely* to take any very detailed form. Whatever preamble or sidebar is eventually to be tacked on to the treaty for Danish consumption will not be ready until the regular summit in December. From Birmingham, a *statement of intent will have to* do.

Wider malaise

But no one should imagine that such a preamble or sidebar is a *sufficient solution to the widespread* malaise which Maastricht has provoked, or revealed; or that the subsidiarity issue can ever be finally solved; or that that issue alone constitutes the problem.

Much of the malaise is of *economic origin and can only be* cured by a renewal of economic growth. That part of it which relates to the structure and behaviour of the EC arises only partly from the non-respect of subsidiarity. It also arises from the lack *of clarity and accountability in* how the EC deals even with things which are properly its business.

Subsidiarity can certainly be improved. Mr Jacques Delors, in the paper he submitted to his colleagues this week, suggested a *sensible and carefully thought-out* approach to the problem. Britain, especially, should welcome the emphasis he gave to the primacy of the internal market. For if this is neglected, subsidiarity could easily be used to demolish it, as differences in national regulations would undermine fair competition. *But whatever happens the Community* is going to retain significant powers, and it is vital that those powers be exercised in a democratic manner which citizens can easily follow. It is simply not acceptable that the legislature enacting rules for over 300m Europeans should be a cabal of ministers meeting behind closed doors.

What the EC needs, and what Maastricht fails to provide, is a democratic and clearly intelligible constitution. Maastricht is still worth ratifying. But long before they are ready to implement its *monetary provisions the leaders of* the new European Union should reconvene to design a coherent set of institutions. One way to do this would be at a special intergovernmental conference before 1996, when the next one is due. Alternatively, *the task could be undertaken* by an elected constituent assembly, with the results subject to ratification by referendum in every member state.

Slip sliding away

THE BRITISH economy is like a battered car on a steepening descent. *Mr Norman Lamont*, and his weary Treasury co-drivers, seem unable to appreciate how fast it is accelerating away from them. Even if they could catch up with reality, *there is no indication* that they have any idea how to *stop the slide*. But *stop it* they must. The longer this continues, the greater the long-term damage will be.

Yesterday's unemployment figures confirm past pains. The post-election recovery in spending failed to materialise; manufacturers cannot sell their stocks either at home or abroad; so manufacturing output has resumed falling and the rise in unemployment has accelerated.

More disturbing, the recession is now set to intensify over the coming months. Job vacancies, a reliable lead indicator, stabilised over the summer. But they have since fallen sharply, by 11 per cent in *September alone*. This, and the latest spate of redundancies, ensure that there is much more bad news to come.

Little wonder, with the economy still deteriorating and real interest rates still painfully high, that consumer confidence has fallen like a stone. There are many more bleak months *ahead before Britain's* consumer recession will have run *its course. The troubles* in the banking sector will persist for longer still, dampening any signs of recovery that do appear.

Yet the government's current drift and indecision are only adding to the sense of malaise that is gripping the country. It needed to keep its head while all around – industrialists, *trade unionists* or back-benchers – were losing theirs. But it appears increasingly *headless*.

There is still time for the government to flesh out an alternative economic strategy, now that sterling has left the exchange rate mechanism. But to do so it must provide answers to a number of questions that a credible policy framework must address:

How can the government take advantage of its new freedom outside the ERM and allow real interest rates to fall without prompting a collapse in the exchange rate, stoking up *inflationary pressures*, and eventually repeating the mistakes that ERM membership was supposed to prevent?

How can it persuade the markets that its finances will be brought under control, other then through more over-optimistic growth forecasts, without employing some combination of capital spending cuts, more job losses or tax increases?

How can it claim that inflation is under control, or indeed controllable without government intervention, while average earnings in manufacturing are still rising at more than 6 per cent a year? This means that real earnings are rising at 2 per cent a year in the midst of a recession, while pay *settlements are twice as high as* they need to be if the competitiveness gains of the devaluation are not to be squandered.

At root, the government must show how it will close the gap between what Treasury ministers and officials say and what the markets and wage-setters are prepared to believe. *Until these questions* are answered satisfactorily, the malaise will persist.

High stakes but low hopes

Today's summit is unlikely to break the Maastricht impasse, writes **Ian Davidson**

Only one thing is certain *about today's* European summit at Birmingham: it will not solve the problems hanging over the future of the Maastricht treaty. The 12 European leaders will all declare their unanimous commitment to Maastricht. But there is clearly a danger that this public relations exercise, which is intended to help assuage the widespread popular mood of scepticism towards the treaty, will in fact *backfire, and instead persuade the* public that the treaty and perhaps the Community are irrelevant to the deepening recession in Europe.

British diplomats say they are optimistic that the European leaders should have no great difficulty *in drafting a declaration on the* elusive new European principle of "subsidiarity", which is supposed to reassure the voters that the treaty will not take the European Community rushing in the direction of a centralised federal state.

"I see no *great difficulty*," says one senior British diplomat. "All we need are criteria and procedures for filtering new European legislation which goes too far in the direction of *centralised interference*, as well as criteria and procedures for repealing old legislation which went too far."

Such confidence seems overdone. Mr Jacques Delors, president of the European Commission, finds the problem so perplexing *that* he has offered a reward to anyone who can define subsidiarity on one side of a sheet of paper. The German government has circulated a memorandum on the subject which runs to 10 pages and is totally incomprehensi*ble, at least in its English translation*. But even if British optimism on this particular issue should turn out to be justified, it is already clear that the Danish government will need much more than a declaration on subsidiarity, however lucid, *before it can submit the Maastricht* treaty to a new referendum. And unless the Danes can reverse their No vote of last June, the treaty as it stands cannot come into force.

No one knows what would be needed to persuade Danish voters to *change their minds, and the Danish* government has yet to formulate its requirements. But the signals from Danish political parties indicate that they will be looking for changes of substance in such areas as economic and monetary union *(Emu), defence and social policy*, which would allow them to opt out of commitments accepted by the others. Moreover, these changes would have to go well beyond informal gentlemen's agreements, and be legally enforceable.

There lies the rub. The Danish prime minister said yesterday that special arrangements could be made for Denmark without changing the treaty. But if these arrangements are legally enforceable, they must be a substantive change to the treaty itself. Since this would amount to a renegotiation of the *treaty, all the member governments* would be compelled to start their national ratification procedures all over again.

That could spell the death of Maastricht. It was only by the narrowest of margins that the French electorate voted in favour of *it last* month, and there could be no assurance that they would vote the same way again. French officials and pro-European commentators freely admit that there are aspects of the treaty which are open to criticism; but the *last* thing they want is to open the Pandora's Box of a renegotiation. *"The treaty framework for* Emu is much too rigid," says a *senior French diplomat*; "*to pretend* to set up a system which would make the movement towards monetary union unstoppable is just puerile. But the immediate task is a salvage operation."

The main threat to the survival of *Maastricht does not come directly* from the Danish No vote, however, but from the possible knock-on in Britain. As a matter of principle all member governments are firmly opposed to any renegotiation. As a matter of practice, they would no doubt be prepared to make some declaratory concessions to Denmark. But, in the last resort, they are unlikely to be ready to jeopardise the whole treaty just to appease the Danes. If the Danes are unable to reverse their No vote, the Community is in a quandary with no easy solution. One option, clearly *allowed for in the Danish government's* White Paper, would be for Denmark to leave the Community.

If that were to happen, it would constitute a seismic reversal of the process of European integration, and a traumatic blow to the European Community. *But in the case of* British ratification, the stakes are *even higher*. A refusal by the House of Commons to ratify Maastricht would not merely kill the treaty, but would have far-reaching consequences for the general trend of European integration which are impossible to predict in detail but *hard to overstate*.

That is why the Danish conun*drum is potentially triply dangerous*. The first danger is that Danish demands could trigger a chain reaction of similar demands in other countries, starting with Britain, for *the same or different opt-outs*. This could mean a progressive unravell*ing of the treaty, and perhaps its* eventual abandonment.

Second, even if such general unravelling were avoided, the British government could find that ratification in Westminster might start to become conditional on securing analogous treaty changes for Britain. As of now, it may be able to intimidate the waverers with a stark choice between Yes and No, in or out; but the argument could become more difficult if there seemed to be a *three-way choice*, between Yes, No and Danish.

Third, the Danish government's drawn-out timetable, which envisages a new referendum next summer at the earliest, could delay the ratification process in the House of *Commons. The official British line* is that the UK government only needs a clear signal from the Danish government, on its proposed solution to the Danish problem, to be able to press rapidly ahead with ratification towards the end of this year. The undertow of political reality, however, is likely to force a *certain coincidence between the* British and Danish timetables. That *suggests that the future of Maastricht* could still be up in the air nine months from now.

It is not at all clear that the other member states are ready to wait that long. Last month there was speculation that an inner core of *member states, starting with* France, Germany and the Benelux countries, might start to move towards monetary union without waiting for Britain or the complete ratification of the treaty. These rumours were immediately denied *and they are still being denied*: "There is no plan for a two-speed Europe," a senior German diplomat said this week. "The Maastricht treaty must be ratified by all 12."

Strictly speaking, these denials are true in at least three senses: there is no agreed two-speed plan, as such, even of a contingency char*acter; the French, at least, are very* uncertain that they want to find themselves in a mini-Europe with the Germans; and the French and Germans both want to stifle any talk which could make John Major's domestic predicament more diffi*cult, by suggesting* that "the Continent" is ganging up on Britain.

"We have a very simple idea," says a top French official. "We want Maastricht to be ratified as soon as possible. We have no new initiative to take. We want to help Mr Major as far as we can."

When Mr Delors floated the idea of a two-speed Europe, he caused anger in the French government. "It looked as though Delors *was trying* to blackmail the British," says Mr *Serge July, editor of Libération*, the French daily. "The people at the Elysée thought this was stupid, because they want to help Major, and they were wild with rage."

There is no reason to doubt French sincerity on this point, since they have always been committed to a universalist idea of the Community. Throughout the negotiations on the treaty, they stuck to the view that all member states ought to be aiming to reach the final stage of monetary union, *including such* unlikely candidates as Italy. This *was partly for the semi-sentimental* reason that Italy was one of the original six member states. But closer to home is the deep conviction that the wider Community is the essential counterpart of the Franco-German relationship.

Ever since *De Gaulle and Adenauer*, Franco-German friendship has been a cardinal component in the foreign policy of both countries. For France, in particular, it has been the vehicle of reconciliation after three cataclysmic wars. As a result, their partnership *has become the* central motor in the development of *the Community*, especially in the past decade. The Maastricht treaty is primarily the result of a sequence of joint initiatives repeatedly taken by President *Françios Mitterrand* of France and *Chancellor Helmut Kohl* of Germany. The Community serves the interests of all its members; it also helps to resolve the painful political conflicts inherited by France and Germany, but that heritage would be much more difficult *to handle without the Community*.

Talk of a two-speed Europe has brought these doubts *to the surface* in both capitals. "It is useful that France and Germany stick together now," says a senior German diplomat. "But in the medium term there will be various alliances in the Community, and there should not be too much emphasis on the Franco-German axis. I cannot imagine the EC going on without Britain."

His view is echoed by Mr Karsten Voigt, *foreign affairs spokesman for* SPD, the German opposition party. "The Franco-German relationship is still a necessary motor. But France alone is no longer strong enough to bind us. There is no longer a balance with France."

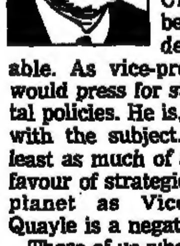
The French still believe in the partnership as the traditional motor of the Community. But they fear German domination in a mini-Europe of five or six countries, and they certainly do not want to be left alone in an uncomfortable *tête-à-tête* with Germany. *Moreover, there is* emerging in Paris a new tendency to see the Community in more political and inter-governmental terms, in which the tone would be set by the triple relationship between France, Germany and Britain. "Our conception of Europe," says a senior *Elysée* official, "is that France, Ger*many and Britain are fairly close*."

But the desire of France and Germany to help Mr Major is not unlimited, and it will not last for ever. It will not extend to changing the treaty, and it may not last much beyond next spring. Neither France nor Germany wants to forge a mini-Europe; but neither is likely to be prepared to leave Europe in limbo. Mr Mitterrand is an elderly man in uncertain health, and his Socialist party is expected to suffer a heavy defeat in the general elections next March. That may well be the deadline for Mr Major to show that he *can and will ratify the treaty as it* stands.

Search for concord: Mitterrand, top left, and Kohl, right, want to help Major ratify Maastricht

Joe Rogaly

Green spirit of America



The great green hope of the US pres*idential election is* Senator Al Gore. He is a man of quality, perhaps more so than Governor Bill Clinton, whose behaviour as presi*dent is unpredictable*. As vice-president, Mr Gore would press for strong environmental policies. He is, happily, obsessed with the subject. He would be at least as much of a positive force in favour of strategies that protect the planet as Vice-President Dan Quayle is a negative one.

Those of us who regard the threat of global warming as the most important political issue since the *fall of communism* will feel a certain quickening of the pulse at the prospect of an actively conservationist presidency of the US. This matters more than the little local question of how Britain came to be governed by a sorcerer's apprentice and his pals.

The Clinton-Gore manifesto promises US environmental leadership. Whether we believe its fine words or not, the pair of them can hardly do worse than *President Bush*. The chances are that Mr Clinton would put Senator Tim Wirth in charge of Washington's environmental protection agency. Now retiring from the senate, Mr Wirth is a Gore ally. He is also working hard on the Clinton campaign. He could attend earth summits with the support of the *new president, in contrast to the* recent fiasco at Rio, where Mr Bush undercut everything the EPA stands for.

Hold on. For any of this to happen Mr Clinton has to win the election. The conventional wisdom is that he will, but those of us who observed the British contest in *April will want to see the votes* counted before being certain. Mr Clinton is not wholly impervious to assaults on his integrity. That is why Mr Bush is fighting dirty. If the Democrats do win, they will be *reminded of their green promises, of* which the central one is to "shatter the false choice between environmental protection and economic growth by creating a market-based environmental protection strategy that rewards conservation and 'green' *business practices while* penalising polluters." The sentiment is unexceptionable, but in the US the opportunities for lobbies to sabotage the implementation are infinite.

On his showing in the debate with Mr Quayle this week Mr Gore is not an ideal campaigner for what should be a popular cause. Mr Quayle, of all people, roughed him up; Mr Gore came across as tight, *pre-programmed, a little priggish*. "Lighten up Al – inhale," smiled *the vice-president, getting in a* reminder that Mr Clinton had once smoked marijuana without breathing in. As vice-president, Mr Gore would have to develop a quicker response mechanism to match the sound-bites put out by the despoilers who deride greens as extremists or, worse, "fern-feelers".

Gore would have to develop a quicker response mechanism to those who deride greens as 'fern-feelers'

If you read Mr Gore's passionate book, Earth in the Balance, you see the public relations problem. It is a splendid work, but there *is* an air of talking to the plants in it. The subtitle, Ecology and the Human Spirit, says it all. This is not an age in which you can easily speak or write of spiritual matters. Mr Gore does, *at length. Over-industrialisation* and the frenetic pursuit of the fruits of growth at the cost of asset-stripping the earth are seen as manifestations of human emptiness. The rot set in when Plato, later followed *by Descartes, sold the idea that* we are disembodied intellects, separate from nature, free to exploit it. Mr Gore is mystic in his affirmation of the opposite view. He assures us that the proportion of water in our bodies is about the same as the pro*portion of water on the earth's surface*, while the salt content in our blood is nearly equivalent to the salt content of the sea.

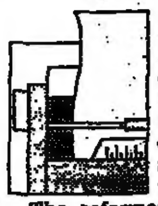
It is easy to mock, but I am with Gore's analysis all the way. The civilisation that seems to have narrowly escaped death-raying itself with nuclear weapons is destroying itself slowly by pumping carbon accumulated over thousands of years into the air in a few decades, *while allowing the earth's population* to quadruple in a single lifetime. The senator makes short shrift of the tiny minority of scientists who doubt this. He enters the debate with essays on history (the catastrophes resulting from past, nature-made climate changes), economics (which avoids issues not related to increasing output), science, politics and religion. He goes way over the top, as in comparing contemporary *hesitations* on green policies with the 1930s prevarications over facing the Nazi challenge. The thrust of his argument is, however, sound.

Yet in the end he is a compromiser. He is, after all, a politician. Read his high-flown prose and you will assume that he believes that *only "deep" greenery, which implicitly* denies growth, will ward off global warming. Mr Clinton is campaigning on a promise to get the US economy moving again. His environmental trumpet is relatively muted. Mr Gore ducks this contradiction. With conservation and intelligent investment, he argues, *you can get richer and save the* earth. These are weasel-words. But I remain an optimist. There are green shoots in there somewhere.

PERSONAL VIEW

Russia on the brink

By Jeffrey Sachs and David Lipton



Russia's economic reforms are falling prey to confusion, communist counterattack, and neglect from the west.

The reformers, led by the acting prime minister, Mr Yegor Gaidar, have achieved great successes in launching a radical privatisation programme, freeing prices, opening the economy and undertaking fundamental legal reforms. But these achievements are on the verge of being swept aside by hyperinflation. Although data are sketchy, inflation now looks to be around 30 per cent a month and rising. Still worse, the policy responses to this threat have been mostly confused or harmful.

The urgent need is to staunch the haemorrhaging of rouble credits from the Russian Central Bank to enterprises and the budget. But aside from the small number of reformers in the cabinet, few Russian political leaders understand or acknowledge the monetary aspects of the explosive inflation. Many hold that further credits will stimulate production and thereby reduce prices, the same fantasy that once gripped Latin America.

Many politicians and bureaucrats believe that a return to price controls, artificial exchange rates and state orders are the real solution to inflation.

The deep economic problem is the same as it has been for many years. Russia and many of the other new eastern European and former Soviet states are still bankrupting themselves by directing resources – now, via cheap credits – to the oversized military-industrial complex and associated civilian heavy industries. It is mind-boggling, for example, that steel production in the Soviet Union was 80 per cent higher than in the US, even though its economy was less than one-eighth the size. Of course, there is no conceivable reason to produce so much steel but it is viewed as a calamity when the steel factories reduce their output in the face of limited demand.

Much of the political elite in Russia remains mesmerised by heavy industrial capacity, and this clouds understanding of Russia's predicament. Almost no one speaks the simple truth that Russia's capacity in heavy industry was built by starving the society of shops, medical facilities, consumer industries, housing construction and banks. Preserving the old structures not only risks financial catastrophe, but promotes continuing neglect of Russia's real and urgent needs elsewhere in the economy.

Poland's reforms provide some lessons for Russia. With the start of market reforms in 1990, the Polish government maintained macroeconomic discipline in the face of a 35 per cent decline in industrial production (much more than has occurred in Russia). Workers and resources that had been in heavy industry helped build other sectors of the economy, especially services and consumer industries.

As a result, Poland's private sector has grown by 710,000 small businesses and 50,000 corporations since the end of 1989. More than 2m people (about 15 per cent of non-agricultural employment) have joined the private sector, which now accounts for more than half of GDP and which continues to grow rapidly.

Contrary to the fears that were expressed in Poland in 1990, and that paralyse Russia today, Poland's consumers have benefited enormously by the changes. Shortages, queues and hyperinflation are gone. Ownership of consumer goods such as television sets, videos and cars has soared. Economic life is becoming normal.

In Russia, the military-industrial complex has bitterly resisted the decline in production. After a fall in production of around 15 per cent at the start of this year, the military and industrialists demanded, and received, large flows of cheap credits to pay workers and buy inputs to try to maintain production. It was widely accepted that the "industrial recession" must end.

The money supply has approximately doubled since July 1, when the floodgates of credit were opened. The credits allowed the enterprises to produce, but did not generate customers for the output. Inventories have swelled and enterprises have continued to cut their output. More and more, the credits find their way directly into higher wages and into the foreign exchange market, where the value of the rouble has been collapsing.

It is hard to judge how much is power politics and how much is confusion in Russia's disastrous monetary policies. Surely, the lobbying pressures of the industrialists play a role. The main "centrist" leader, Mr Arkady Volsky, headed industry under former Soviet President Mikhail Gorbachev, and his goal is to preserve the old industrial structures. Many other politicians, such as Mr Anatoly Sobchak, mayor of St Petersburg, defend the military-industrial complex because their constituencies depend heavily on military production. In Ukraine, the head of the largest nuclear missile plant became prime minister this week.

But the role of confusion should not be underestimated.

President Yeltsin stands to lose all by hyperinflation, and yet he is promoting Gorbachev-style "compromises" with the military-industrial complex which will bring financial disaster. The swirl of advice around Yeltsin is thick with old dogmas: that industrial decline is destroying Russia; that unemployment is too high a social cost (despite an unemployment rate that is less than 1 per cent); and that inflationary subsidies to industry reduce social burdens.

The situation is desperate, but not hopeless. The Russian people generally support the reforms, though their support has been squandered by irresponsible macroeconomic policies. Yeltsin can still reverse his drift back to the hardliners, by recognising the peril of his present course. The west, too, could awaken from its reckless disregard of events in Russia, and weigh in on the side of macroeconomic stabilisation.

At the start of this year, when the reformers had momentum, the west was nowhere to be found. US President George Bush virtually abandoned the international scene altogether, in pursuit of re-election. Japan's role has been even more irresponsible, as it put the return of four tiny islands from Russia above other considerations. And while western Europe did more, its commitment has still been shockingly slight, given the risks of disaster on its own borders.

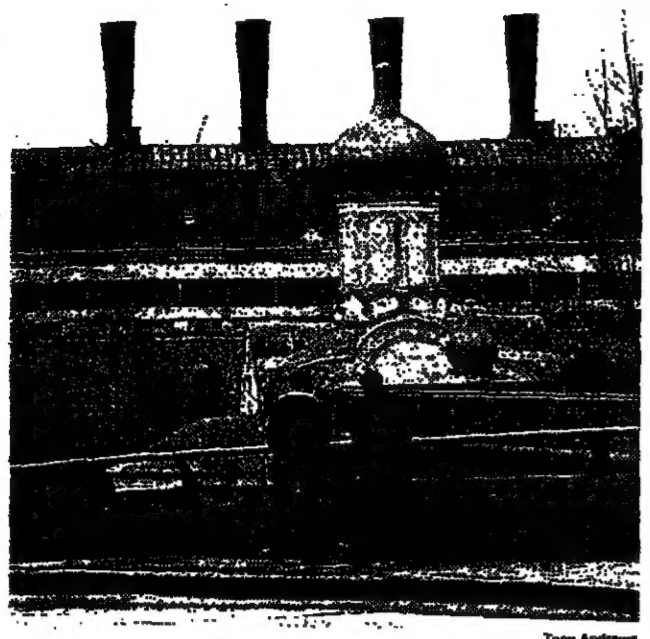
The International Monetary Fund, sent by the west to co-ordinate its assistance, has had not a single monetary expert in residence in Moscow, and the sporadic IMF visits have just scratched the surface. The $24bn aid package promised by the west has remained undefined and unfulfilled.

The limited flows coming to Russia, mostly from export credit agencies, have been one or two-year loans that are not linked to reform. Even the debt has not been rescheduled.

There can be no illusions: Russia's transformation to a democratic market-based society will require years of change, including constitutional reforms, new elections, privatisation, and so on. There will be deep frustrations as well as achievements. But the process could soon turn from orderly change to dangerous chaos if there is hyperinflation.

Yeltsin and his reform government still have the chance to steer their country away from the brink of disaster. The west can help them at this pivotal moment. The need for greater financial support, technical assistance and debt relief is clear. The world's leaders, especially the next US president and Russia's neighbours must recognise the urgency of the task.

Jeffrey Sachs is professor of economics at Harvard University. David Lipton is a fellow at the Woodrow Wilson Centre. The authors are economic advisers to the Russian government.



Tony Andrews

Devotion to industry: a waste of Russia's resources

Western Europe's commitment has been shockingly slight, given the risks of disaster on its own borders

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Coal seen as victim of muddled economic thinking and lack of long-term strategy

From Mr R Lynk.

Sir, Your editorial comments ("Coal takes the unkindest cut", October 14) properly set out the powerful economic arguments in favour of maintaining a strong domestic coal industry, and lay the blame for the present crisis where it really belongs. The previous government privatised the electricity industry in a way which creates a rigged market and permits the power generators to build gas-fired power stations to produce more expensive electricity than existing coal-fired stations and then pass on the extra costs to electricity consumers. At the same time nuclear power is subsidised by every electricity consumer having 11 per cent added to his bill.

This government is forever preaching about subjecting the energy industry to market forces. Let no one doubt that my members have no fear of market forces; what they demand is a level playing field so that the lowest cost fuel available for electricity generation – coal produced in Britain – gets its rightful share of the market.

R Lynk,
president/general secretary,
Union of Democratic Mineworkers,
Berry Hill Lane,
Mansfield, Notts NG18 4JU

From Mr James Colgan.

Sir, The present government seems determined to prove that it is the most committed of economic purists and to offer up whole chunks of British industry on the altar of a "free market" which, as we all know, is in no way at all as free as they would like us to believe.

The decision to close so many productive coal mines can be seen as a form of economic madness which no amount of waffling about "the costs of production" by Michael Heseltine can disguise. At a time when good quality coal is hard to come by (ignoring the brown coal which floods in from eastern Europe) we seem prepared to increase our reliance upon coal imports and to accept the idiocy of burning vastly increasing quantities of gas – a valuable feedstock for many other chemical and pharmaceutical products.

The decision by past governments not to invest heavily (as the Germans have done) in desulphurising scrubbers for our coal-fired power stations helps, of course, the present case against coal – and for gas – in that the discharge of pollutants exceeds the permitted European levels. That the Germans are now probably world leaders in the manufacture and sale of such equipment, and that many thousands of jobs were created by the German government's decision to invest in this area shows what an enlightened and pragmatic approach to problem solving can turn up.

James Colgan,
Grob Machine Tools UK,
Wellesbourne House,
Wellesbourne,
Warwickshire CV35 9JB

From Mr David Blake.

Sir, Everyone seems agreed that a major cause of the persistence of the current recession is that so many people engaged in herd-like over-investment in property. We now learn that most of our coal industry is to be closed because 43 natural gas power stations are being built, or have been proposed. I wonder whether there is any similarity between these phenomena?

David Blake,
42 Wilmington Square,
London WC1X 0ET

From Dr Jeffrey Henderson and Ms Su Maddock.

Sir, Mr Heseltine was reported as saying that "British Coal cannot go on producing coal that cannot be sold" and that the closure of 31 pits and the redundancy of 30,000 miners was the painful but inevitable result. Even before considering the knock-on effects of such economic devastation the government's judgment in terms of business sense is lacking.

Instead of developing an economic framework and infrastructure that gives some support during the recession to this national industrial asset, the government has exacerbated the situation by allowing the short-term, narrow interests of the power generators and suppliers to determine energy policy. By privatising the electricity generating and supply industries, the government gave the green light to the "dash for gas." Now it argues that the demise of "King Coal" was caused by market forces: these inanimate processes that mere mortals, such as government ministers, cannot alter and tamper with at their peril.

All this, of course, is ideological nonsense. Other countries – Germany, France, Japan for instance – have market economies, but ones in which the state is prepared to intervene to influence corporate investments, to protect or induce industrial sectors considered essential to national economic health. The British government kow tows to only one of many versions of the market economy, and the one which recent history has shown to be the least capable of delivering high productivity-high wage, prosperous economies.

Jeffrey Henderson,
Su Maddock,
Manchester Business School,
University of Manchester

From T J W Craig.

Sir, Michael Heseltine said on the Today radio programme (October 15) that one of the reasons for buying gas and converting the power stations is that it would be cheaper for the consumer. The electricity industry, like other businessmen, had to go out and buy the cheapest option.

Has nobody ever told him, "Cheap is dear"?

I would have preferred to have paid a little more for my electricity than see the coal industry die, the resultant unemployment and inevitable consequences.

T J W Craig,
The Business Connection,
42 Bridge Street Row,
Chester CH1 1NN

From Mr David Burkitt.

Sir, We recently conducted a survey among the largest users of energy in the UK. Only 22 per cent of them unreservedly supported an increase in gas fired generation of electricity.

There was a call for a balanced investment programme with a continuing major contribution from coal to ensure gas are not misused. There was also a widely held belief that the costs of gas generation would not be lower in a genuinely free market.

Before committing us to the decimation of the coal industry, the government should listen to people who operate in the real world, who actually take decisions and whose motivation is common sense, efficiency and concern for the environment.

David Burkitt,
Industrial Research Bureau,
The Old Bakehouse,
Bennett Park,
Blackheath Village,
London SE3 9RA

From Ms Christine Large.

Sir, As the grand-daughter of a Northumbrian miner, I watched the painful transformation of a resilient and proud community. Long ago, I crept south to run a service sector company.

In the past, it was possible (though not easy) to adapt. Now, what prospects do 30,000 grief-stricken miners have?

The industrial loss will compound this country's infrastructure deficit. There is scant evidence to suggest that any government takes a sufficiently impartial and long-term view of the country's needs and hopes, to create the basis for sustainable economic and social health.

We should have a published, national five year rolling plan which could accommodate free market principles without allowing a political free-for-all.

An abiding aspect of the miners' tragedy may be that the shaky road behind is clear; yet the road ahead is not built, and who dare be confident that the supposed economics of this decision, are not another blind alley?

Christine Large,
chairman,
Epigram International,
52 Winterbrook Road,
London SE24

OBSERVER

A boon to business?

■ Lords Hanson and White, Sir Ralph Halpern, Richard Branson and dozens of other business leaders can breathe a little more easily. They have not won this year's most embarrassing business award for Britain's Most Romantic Top Tycoon.

Mills & Boon, which publishes 15m copies of its bodice-ripping yarns a year, has conducted a nationwide search for Big Business's "Mr Right" over the past six months. It contacted the personal assistants of 140 top business people and 17 replied, which sounds rather a lot.

Apart from saying that the "winning nominee has a lifestyle that will make most women swoon" Mills & Boon's lips are sealed until the week after next. The only clue is that when not playing with his private helicopter and jet, the winner still finds time to cook candle-lit dinners for his 21-year-old girlfriend. This sounds rather like Richard Gabriel, 37, the multi-millionaire founder of parcel firm Interlink Express.

However, a word of warning to the winner. When Mills & Boon last grabbed the headlines by picking Britain's Most Romantic MP, within three years the winner had separated from his wife and lost his seat in Parliament.

Base line

■ America might be getting a new president, but in one sense its priorities remain unchanged. Candidate debates are taking a second place to this year's baseball play-offs.

The first debate on Sunday was timed to be sandwiched between two games. As it happened, the first ran into an extra innings (overtime to the uninitiated), which meant that CBS never switched to the candidates at all. The vice presidential hand-to-hand combat was also broadcast early for the same reason.

Last night's set-to was entirely dependent on the men in pinstriped pyjamas. If Oakland had beaten Toronto on Wednesday, forcing a deciding game last night, then the debate would have been early again. But as Toronto were the conquerors, it could go on in prime time.

But here's the curiosity. Sunday's TV ratings for what was a very exciting baseball game were awful compared with the debates, not entirely explicable by the fact that one of the teams is from Canada.

Maybe America really does prefer blood sports.

Tarzan says...

■ British ministers have to work hard these days to find foreign countries that are prepared to put up with their pontificating about how to improve economic performance. But more determined than most, Board of Trade President Michael Heseltine found one such candidate yesterday.

Sweeping in late and departing early, the dynamic Hezza dispensed timely lunchtime advice on bringing down inflation, fiscal reform and other issues.

The hapless recipients of these insights? The 50th anniversary luncheon in London of the Brazilian Chamber of Commerce in Great Britain.

Rising star

■ Is Morgan Grenfell's John Craven about to be joined by another foreigner on the Deutsche Bank board? News that Gianemilio Osculati, the smooth, silver-haired managing director of Banca d'America e d'Italia, (BAI) is leaving Milan to take a "senior management" post at BAI's parent Deutsche Bank, has certainly set tongues wagging.

Osculati, the former head of McKinsey's European banking practice, who was hired to run BAI just before its sale to the Germans, has made a success of the company, almost doubling profits in the past four years.

But the affable Osculati, 45, may have to wait a while. Like Craven he is hardly fluent in German, and a slot on the bank's current 13 member board is not likely to become vacant until the end of next year, when Horst Burgard is expected to retire.

"On the bright side, we may see inflation down to zero in our lifetimes"

Talking shop

■ In happier times Norman Lamont would have loved nothing better than returning to his old university union to debate the follies of the Labour party's economic policies. However, the chancellor has dropped out of tonight's Cambridge Union debate.

Perhaps he was worried that he might lose. Whatever the reason, the Treasury team is missing the urbane communications skills of former ministers, Francis Maude and John Maples, who lost their seats in the last election.

Indeed, Observer hears that Maples – now working for Saatchi's – was even in the running at one stage to head Lloyd's of London, the venerable insurance market whose current problems seem almost as intractable as the government's own. After careful consideration, Maples decided against entering that particular race. Could it be that he wanted to avoid a commitment that might prevent him running in an early by-election?

Ritzy

■ More bad news for Trafalgar House. The Ritz, earmarked for disposal, now faces a £3m claim for personal liability damages after losing a long-running court battle involving a guest's 45ft plunge from the hotel's terrace. The House of Lords has found the hotel to be at fault in not having a high enough balustrade.

The case hinged on whether the Ritz had raised the floor of the terrace, as the unfortunate guest, who sustained a fractured skull, asserted. To prove the point, his solicitor had examined old lithographs at the British Museum to establish that an extra step up to the terrace had appeared; won a court order to dig up the terrace; examined the tiles; tracked them down to the factory in Germany where they were made; and obtained a statement from the man who made them in 1976.

FINANCIAL TIMES

Friday October 16 1992

Rise in UK jobless figures fuels criticism of government policy

By Emma Tucker, Alison Smith and James Blitz in London

CRITICISM OF the British government's handling of its economy grew louder yesterday as a sharp drop in consumer confidence and another big rise in unemployment dimmed prospects for an economic recovery.

Official figures showed that the number of people unemployed and claiming benefits rose by 32,200 last month to a five-year high of 2.84m, leaving one in 10 of the labour force out of work.

Accelerating unemployment growth and a steep drop in job vacancies indicated that further sharp rises in the jobless total are likely before the end of the year.

In London the news that the unemployment rate had reached 10.1 per cent helped push the pound down nearly 4 pfennigs to DM2.4620. The deteriorating eco*nomic picture in the UK is being* increasingly cited by foreign investors as a reason for sterling's weakness on the foreign exchanges.

The FT-SE Index of 100 leading shares closed down 28.1 at 2,546.6 as the government's apparent reluctance to cut base rates, currently at 9 per cent, depressed UK equities.

The UK cabinet gave no response to the figures after meeting to discuss public spending yesterday, but the government came under renewed attack from backbenchers, business and industry.

Consumer confidence has also continued the decline that began shortly after the Conservative party's April election victory. A *Gallup survey, carried out before* the government's announcement on Monday of plans to shut 31 mines, found that more than half of Britons expect the economic situation to deteriorate during the next 12 months while only a sixth expect it to improve. This was the gloomiest finding for at least five years.

Mrs Gillian Shephard, the employment secretary, said she was "deeply concerned about the personal hardship of unemployed people and their families" but said the latest rise in the jobless total reflected world economic circumstances.

Unemployment in the UK has now risen by 78 per cent, or 1.25m people, since the figures started to rise more than two years ago. The latest increase took seasonally adjusted male *unemployment to 13.4 per cent*, the highest rate since records began in May 1986.

Recent announcements of job losses – particularly from the coal industry – suggest that the rate of growth in unemployment is unlikely to slow before the end of the year. Last month's 11 per cent fall in job vacancies also pointed to a gloomy outlook.

Mr Frank Dobson, Labour opposition employment spokesman, said: "The worst is yet to come – that's the bleak message from these figures."

Conservative backbenchers stepped up their criticism of the government's handling of the economy. Mr John Butcher, a for*mer minister, said all economic* indicators were "screaming for a reduction in interest rates". He warned that if the Treasury "continues to do nothing, there will not be much of a traded goods sector left in the UK on which to build any kind of recovery".

Mr John Townend, chairman of the Conservative backbench finance committee, accused the *government of devoting too much* time to sorting out Maastricht *instead of the economy.*

Mr Howard Davies, director general of the CBI, the employers' organisation, demanded leadership from Downing Street.

Confidence within Europe's business community has fallen in the wake of the recent turmoil in the currency markets, according to a survey conducted by the UK *Confederation of British Industry.* Page 8

THE LEX COLUMN

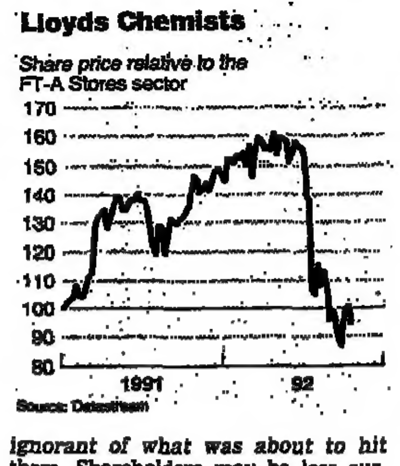
View from the pit

The government seems to have dug itself into a hole which is getting deeper by the day. That yesterday's unemployment figures were slightly better than the market expected while *average earnings are growing at* less than 6 per cent is of trifling importance. What matters more is that a headline unemployment rate of more than 10 per cent has been announced in a week in which the government has taken an axe to the coal industry and spurned a market opportunity to cut interest rates. It almost begins to look as if it does not care about recovery at all. After the humiliating exit from the ERM, such behaviour is asking for political trouble.

So it is not surprising that sterling should be weak. Exchange markets do not look kindly on countries with economic growth problems whether they are in or outside the ERM. When there is no growth, anti-inflation defences, whether they be high interest rates or tight fiscal policy, lose their power to frighten. It would be difficult for the authorities to undercut German rates by far and for long. Had they had the confidence to cut rates at the start of the week, though, *sterling might* have held up better. Instead the UK could find itself in a trap where lack of growth makes sterling weak, so interest rates cannot be cut and the lack of growth is compounded.

Eventually, of course, credibility would be stretched too far and rates would have to be cut. That might be *an occasion for equities to rebound, as* they did after Black Wednesday. Until then the market is bedevilled by sheer uncertainty as well as by its anxiety at the determination of the government to cut spending when output is falling. There must be a more coherent policy. The question is: can the government deliver it?

FT-SE Index: 2546.6 (-28.1)



Trafalgar House

Trafalgar's recent defence document was carefully drafted – and just as well. Referring to discussions with the Financial Reporting Review Panel it said any consequential amendments to its accounting policies and practices *should* not affect the aggregate of shareholders' funds. That subtle qualification was important. In the light of the panel's damning findings yesterday Trafalgar announced that it was revising its policy on advance corporation tax and that this would result in a £20m write off in the 1991 accounts.

It seems strange that just 10 days ago the Trafalgar directors were so *ignorant of what was about to hit* them. Shareholders may be less surprised at the panel's order to Trafalgar to reverse the way it reclassified certain current assets into fixed assets. There was, after all, an outcry in the City and the press at the time because the new classification flattered the *profit and loss* account. Nevertheless the whole episode – not least the unprecedented way in which the accounting watchdog threatened to go to court to force the company's compliance – casts a further cloud over Trafalgar's boardroom judgment. Hongkong Land may be a bit cheeky to demand two representatives for its *15 per cent stake – but it appears that* they are needed.

Yesterday's developments, though, will encourage those in the UK trying to improve the quality of financial reporting. The panel is lucky that it was adjudicating on Trafalgar – one of its most high profile victims – at such a vulnerable stage in its history. The result should bolster its authority.

UK water companies

The market was right to be relieved at yesterday's interim pricing agreement between the water companies and their regulator. Lower K-factors – the amount by which the companies can increase prices above inflation – will squeeze profits, but by less than feared. The companies which signed two-year agreements have also gone *some way to* reducing regulatory uncertainty in the run up to the 1995 periodic review scheduled at the time of privatisation.

Thames has taken this argument a stage further by asking for a change in *its licence which rules out any further* tinkering with the pricing formula between reviews. Thames will have a clearer idea of its likely revenue, but it will also be unable to pass through extra costs to customers by appealing to the regulator for a higher K factor. This leaves the company more exposed to the risk of, say, higher than expected construction prices or new environmental standards. One can only *assume that Ofwat will take this* into account when setting the company's rate of return on capital as part of the 1995 review.

Assuming South West Water can reach agreement today, only North West is left in dispute. The issue may not be resolved until December, which partly explains the poor performance of the shares – although the abrupt departure of the new finance director on Wednesday was hardly reassuring. Still, the favourable outcome of South West's appeal last year on similar grounds suggests North West will at least get a fair hearing.

Lloyds Chemists

Lloyds Chemists' full-year figures make one nostalgic for the 1980s. Turnover is up by a strapping 106 per cent and profits increased by an almost equally healthy 78 per cent. Granted much of the expansion was on the back of paper-driven acquisitions, yet even earnings per share are 20 per cent higher. Glowing though all *that may be, the difficulty with acquis*itive companies is that they often move so fast it is difficult to determine what they are really worth.

Rapid expansion of the chemist, drugstore and healthfood chains obscures the view of sales and profits on a comparable basis. Provisions and write-offs do not make things any clearer. And while gearing is a comfortable 22 per cent, the asset backing *depends in part on the value of phar*macies as premium retail sites being maintained. It may be instructive to note that when the government tightened its payment terms to pharmacists in July, the shares fell sharply. Not only has chemists' income fallen; perhaps the value of a pharmacist's franchise has declined as well.

Against all the recurring worries about aggressive entrepreneurs com*ing to grief, it can be argued that* dispensing chemists have a stable business. However, with Lloyds on a rating half that of the stores sector, the market is clearly *not prepared to* take anything on trust.

US hardens stance on EC trade round

By David Gardner in Brussels, David Dodwell in London and Agencies

THE US has "stretched as far as possible" in its negotiations with the European Community aimed *at achieving a breakthrough* in the Uruguay Round of talks on world trade liberalisation, President George Bush said yesterday in a letter sent to EC leaders.

In a second shot across Europe's bows in a single day, the US also announced plans to sell 870,000 tonnes of subsidised vegetable oil worth $377m to 11 countries. The subsidies have *been announced just a day after* the US trade representative returned from Europe without a settlement on a long-running US-EC oilseeds dispute.

This apparent hardening of the US negotiating position coincides with a similar hardening in the EC, as Mr Jacques Delors, president of the European Commission said Europe should stand up *to the US in negotiations on sub*sidised farm trade.

His comments will give heart to French officials, who have risked creating a deep division inside the Community by insisting that they will not sacrifice French farm interests to get Mr Bush re-elected. They accuse EC negotiators of caving in to American pressure.

EC officials nevertheless showed concern that France was opposed not only to a farm settlement with the US, but that they did not believe the CAP reform would work or be adhered to. "It is clear now that France never really intended to comply with CAP reform," one senior Commission official said yesterday.

EC and US officials believe an agreement on the Uruguay Round must be reached before the US presidential election on November 3, in part because Mr Bush wants to lift his waning electoral fortunes.

Talks *aimed at reaching* a breakthrough fell short of an clear conclusion in Brussels early this week. Negotiators nevertheless said they had "narrowed the gap", and plan to continue talks over the coming week.

Mr Bush said in the letter sent on the eve of the special EC summit in Birmingham, where the stalled Uruguay Round will be on the agenda: "The negotiators have done all they can. Now we need the political will.

He nevertheless insisted that settlement of the trade dispute was "within reach".

It was the first time in many months that Mr Delors has said where he stands on a question which France says is of vital national interest.

"It is not just a French problem," he said, adding that "there must be an equitable arrangement."

In the running: Democratic candidate Bill Clinton greets Susannah Badgett during a run through Williamsburg, Virginia, ahead of the second televised presidential debate

Bush fails to gain boost from US presidential debate

By George Graham in Washington

THE SECOND US presidential debate last night may not have been the very last chance for President George Bush to reverse his dwindling chances of winning re-election, but it came close.

Opinion polls published yesterday showed that Mr Bush's performance in Sunday's first debate had done nothing to cut the lead of Governor Bill Clinton, his Democratic challenger.

A New York Times/CBS poll conducted on Monday and Tuesday showed that Mr Clinton's lead was virtually unchanged at *47 per cent to Mr Bush's 34 per* cent. Mr Ross Perot improved his standing slightly to 10 per cent.

Polling by CNN/USA Today/Gallup after Sunday's debate also showed little movement, with Mr Clinton at 46 per cent, Mr Bush at 34 per cent and Mr Perot at 13 per cent.

State by *state polls from Hot*line, a Washington political newsletter, show an apparently all but impregnable lead for Mr Clinton in the electoral college by which the election is decided.

Mr Thomas Hopper, state Republican chairman in Tennessee, said Mr Clinton was "running away" with the election. "The president needs to be tough and specific because Clinton's message is selling," he added.

Republican campaigners yesterday showed growing despair that any tactic the president might employ would now be *enough to win the election.* While one more debate is still to be held, Mr Bush's supporters admitted that he needed at least to pierce Mr Clinton's armour last night if he is to draw blood in Monday's final encounter.

Mr Bush promised to try to do as well as Vice-President Dan *Quayle had in Tuesday's debate* against Senator Al Gore, the Democratic vice-presidential candidate, and Admiral James Stockdale, Mr Perot's running mate.

But although Mr Quayle's aggressive performance encouraged dispirited Republican loyalists, it appears to have done little to win over undecided voters.

Republican strategists were divided over whether Mr Quayle's attacking style would work for the president, or merely make him look unpresidential.

Attacks by Mr Bush and Mr Quayle on their opponent's have, *according to polling data and* campaign workers, raised doubts about Mr Clinton, but have done little to increase Mr Bush's vote.

Race for the White House, Pages 6-7

Cabinet stands by decision on pit closures

Continued from Page 1

thought through". A briefing from Conservative central office has been sent to every Tory MP, but numerous backbenchers have already made public their opposition to the plans.

Mr Nicholas Winterton, MP for Macclesfield, said that, "the government just cannot have given any serious thought to the economic, social and financial consequences of this action".

Protests have come also from Tories outside parliament. Ms Anne Yates, leader of the Tory group on Nottinghamshire county council, said this tested their faith as Conservatives. They have written to Mr Heseltine expressing disgust at the move and "betrayal" of the Union of Democratic Mineworkers.

The *NUM delegate conference* in Sheffield decided to try to maximise public support for a campaign against the closures rather than press for an immediate strike ballot which many delegates said would be lost.

The NUM and Nacods, the pit supervisors union, were applying for an injunction against the closures – the first six of which are due to take place today – arguing that British Coal failed to consult the workforce as it is *bound to do under the colliery* review procedure and both British and EC employment law.

World Weather

		°C	°F			°C	°F			°C	°F
				Boulogne	F	10	50	Frankfurt	R	7	45
				Brussels	F	9	48	Geneva	C	11	52
				Budapest	S	12	54	Gibraltar	S	18	64
Ajaccio	C	20	68	Buenos Aires	F	31	88	Glasgow	F	9	48
Algiers	S	22	72	Cairo	S	34	93	Helsinki	R	4	39
Amsterdam	S	8	46	Cape Town	F	17	63	Hong Kong		–	–
Athens	C	22	72	Caracas	F	29	84	Innsbruck	S	12	54
Bahrain	S	31	88	Casablanca †	F	25	77	Inverness	H	5	41
Bangkok	C	31	88	Chicago †	C	11	52	Islamabad	F	29	84
Barcelona	F	17	63	Cologne	S	9	48	Istanbul	F	17	63
Beijing	C	14	57	Copenhagen	R	5	41	Jakarta	R	32	90
Beirut	S	25	77	Corfu	F	23	73	Johannesburg	S	27	81
Belfast	F	9	48	Dallas †	F	23	73	Lisbon	R	14	57
Belgrade	C	9	48	Dublin	F	9	48	London	F	9	48
Berlin	C	8	46	Dubrovnik		–	–	Los Angeles †	C	16	64
Biarritz	F	15	59	Edinburgh	F	8	46	Luxembourg	F	8	43
Bombay	F	31	88	Faro	R	18	64	Madeira	F	23	73
Bordeaux	C	15	59	Florence	S	17	63	Madrid	R	11	52

		°C	°F			°C	°F			°C	°F
Majorca	F	21	70	Oporto	F	14	57	Tenerife	C	24	75
Malaga	R	20	68	Oslo	Sn	3	37	Tokyo	C	17	63
Malta	F	22	72	Paris	C	11	52	Toronto †	R	9	48
Manila	C	33	91	Prague	F	13	55	Tunis	S	23	73
Melbourne	S	25	77	Reykjavik	S	3	37	Valencia	F	19	66
Mexico City	R	22	72	Rhodes	F	27	81	Venice	S	13	55
Miami †	S	26	79	Rio de Janeiro	F	30	86	Vienna	F	9	48
Milan	F	15	59	Rome	S	19	66	Warsaw	F	12	54
Montreal †	F	5	41	Salzburg	C	13	55	Washington †	S	12	54
Moscow	C	3	37	S'Francisco †	S	13	55	Zurich	C	9	48
Munich	C	11	52	Seoul	C	21	70				
Nairobi	C	25	77	Singapore	F	32	90				
Naples	F	20	68	Stockholm	C	6	43				
Nassau	C	29	84	Strasbourg	F	11	52				
New Delhi	S	32	90	Sydney	S	23	73				
New York †	C	15	59	Taipei	R	24	75				
Nice	F	18	64	Tangier	F	22	72				
Nicosia	S	26	79	Tel Aviv	S	29	84				

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder